The Caucasus and Caspian Region:

Understanding U.S. Interests and Policy

The Caucasus and Caspian Region:

Understanding U.S. Interests and Policy

THE CAUCASUS AND CASPIAN REGION: UNDERSTANDING U.S. INTERESTS AND POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON EUROPE

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

OCTOBER 10, 2001

Serial No. 107–51

Printed for the use of the Committee on International Relations

COMMITTEE ON INTERNATIONAL RELATIONS

HENRY J. HYDE, Illinois, *Chairman*

BENJAMIN A. GILMAN, New York
JAMES A. LEACH, Iowa
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
EDWARD R. ROYCE, California
PETER T. KING, New York
STEVE CHABOT, Ohio
AMO HOUGHTON, New York
JOHN M. McHUGH, New York
RICHARD BURR, North Carolina
JOHN COOKSEY, Louisiana
THOMAS G. TANCREDO, Colorado
RON PAUL, Texas
NICK SMITH, Michigan
JOSEPH R. PITTS, Pennsylvania
DARRELL E. ISSA, California
ERIC CANTOR, Virginia
JEFF FLAKE, Arizona
BRIAN D. KERNS, Indiana
JO ANN DAVIS, Virginia

TOM LANTOS, California
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
ENI F.H. FALEOMAVAEGA, American Samoa
DONALD M. PAYNE, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. McKINNEY, Georgia
EARL F. HILLIARD, Alabama
BRAD SHERMAN, California
ROBERT WEXLER, Florida
JIM DAVIS, Florida
ELIOT L. ENGEL, New York
WILLIAM D. DELAHUNT, Massachusetts
GREGORY W. MEEKS, New York
BARBARA LEE, California
JOSEPH CROWLEY, New York
JOSEPH M. HOEFFEL, Pennsylvania
EARL BLUMENAUER, Oregon
SHELLEY BERKLEY, Nevada
GRACE NAPOLITANO, California
ADAM B. SCHIFF, California
DIANE E. WATSON, California

THOMAS E. MOONEY, SR., *Staff Director/General Counsel*
ROBERT R. KING, *Democratic Staff Director*

SUBCOMMITTEE ON EUROPE

ELTON GALLEGLY, California, *Chairman*

DOUG BEREUTER, Nebraska
PETER T. KING, New York
RICHARD BURR, North Carolina
JOHN COOKSEY, Louisiana
NICK SMITH, Michigan
BENJAMIN A. GILMAN, New York
JAMES A. LEACH, Iowa
DAN BURTON, Indiana
ERIC CANTOR, Virginia

EARL F. HILLIARD, Alabama
BRAD SHERMAN, California
ROBERT WEXLER, Florida
JIM DAVIS, Florida
ELIOT L. ENGEL, New York
WILLIAM D. DELAHUNT, Massachusetts
BARBARA LEE, California
JOSEPH CROWLEY, New York

VINCE MORELLI, *Subcommittee Staff Director*
VALERIE VAN BUREN, *Democratic Professional Staff Member*
PATRICK PRISCO, *Professional Staff Member*
KELLY McDONALD, *Staff Associate*

CONTENTS

Page

WITNESSES

Charles H. Fairbanks, Ph.D., Director, Central Asia-Caucasus Institute, School of Advanced International Studies, Johns Hopkins University 24
Brenda Shaffer, Ph.D., Research Director, Caspian Studies Program, Kennedy School of Government, Harvard University 32
Zeyno Baran, Director, Georgia Forum, Center for Strategic and International Studies 43

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

The Honorable Elton Gallegly, a Representative in Congress from the State of California, and Chairman, Subcommittee on Europe: Prepared statement 2
The Honorable Earl F. Hilliard, a Representative in Congress from the State of Alabama: Prepared statement 3
The Honorable Benjamin A. Gilman, a Representative in Congress from the State of New York: Prepared statement 4
The Honorable Joe Knollenberg, a Representative in Congress from the State of Michigan: Prepared statement 5
Charles H. Fairbanks: Prepared statement 26
Brenda Shaffer: Prepared statement 35
Zeyno Baran: Prepared statement 46
The Honorable Eric Cantor, a Representative in Congress from the State of Virginia: Prepared statement 57

THE CAUCASUS AND CASPIAN REGION: UNDERSTANDING U.S. INTERESTS AND POLICY

WEDNESDAY, OCTOBER 10, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EUROPE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2 p.m. in Room 2172, Rayburn House Office Building, Hon. Elton Gallegly [Chairman of the Subcommittee] presiding.

Mr. GALLEGLY. I call to order the Subcommittee on Europe.

Today the Europe Subcommittee continues its oversight hearings of U.S. foreign policy toward those areas under our jurisdiction. The region we are addressing today does not fit neatly into a strict European definition. In many respects, this region known as the Caucasus remains little known and undefined in our overall U.S. geopolitical strategy.

The Caucasus states of Armenia, Azerbaijan and Georgia have been described as a strategic gateway of energy and trade routes linking East and West. In the context of the Caspian region, energy development and supply diversification as well as U.S. energy security have all been offered as reasons why the U.S. should be involved in the region.

Others have pointed to U.S. political interests in the region in terms of containing Iranian influence or balancing Russian domination of the Caspian energy agenda. Still others, in the wake of the September 11 tragedy, believe this region dominated by a secular, but Moslem Azerbaijan and impacted by the conflict of Chechnya should be of interest because of the potential for the spread of radical Islamic influence.

In fact, some have already suggested that Azerbaijan has been a major transit point for al-Qaeda operations in Chechnya and other Central Asian republics. So we raise the following questions:

Does the U.S. have strategic interests in the Caucasus or are developments there largely marginal to U.S. interests?

Are the oil and gas resources of the Caspian region vital to U.S. trade and security?

Should the U.S. be more involved in conflict resolution, support for regional stability and the transborder issues such as crime, smuggling and terrorism, which could have a negative impact on Turkey, Europe as a whole or even the United States?

Should we proceed with caution in adopting a policy which would involve the U.S. in a region beset by ethnic and civil conflict.

In today's hearing we will ask our expert witnesses to attempt to sort out exactly what are and what should be the U.S. interests in this region and how U.S. policy toward the Caucasus should be defined. We have assembled a panel of well-known experts in the region, and we are especially pleased that Dr. Shaffer was able to come down from the John F. Kennedy School to be with us today.

Dr. Shaffer, welcome. Before turning to our witnesses, I will recognize our Ranking Member, my friend from Alabama, Mr. Hilliard, for any opening remarks he may have.

[The prepared statement of Mr. Gallegly follows:]

PREPARED STATEMENT OF THE HONORABLE ELTON GALLEGLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE

Today the Europe Subcommittee continues its oversight hearings of U.S. foreign policy toward those areas under our jurisdiction.

The region we are addressing today does not fit neatly into a strict European definition. In many respects, this region, known as the Caucasus, remains little known and undefined in overall U.S. geopolitical strategy.

The Caucasus states of Armenia, Azerbaijan and Georgia have been described as a strategic gateway of energy and trade routes linking East and West.

In the context of the Caspian region, energy development and supply diversification, as well as U.S. energy security have all been offered as reasons why the U.S. should be involved in the region.

Others have pointed to U.S. political interests in the region in terms of containing Iranian influence or balancing Russian domination of the Caspian energy agenda.

Still others, in the wake of the September 11 tragedy, believe this region, dominated by a secular, but Moslem Azerbaijan and impacted by the conflict in Chechnya, should be of interest because of the potential for the spread of radical Islamic influence.

In fact, some have already suggested that Azerbaijan has been a major transit point for al Qeada operations in Chechnya and the other central Asian republics.

So we raise the following questions:

- Does the U.S. have *strategic* interests in the Caucasus or are developments there largely marginal to U.S. interests?
- Are the oil and gas resources of the Caspian region *vital* to U.S. trade and security?
- Should the U.S. be more involved in conflict resolution, support for regional stability, and transborder issues such as crime, smuggling and terrorism which could have a negative impact on Turkey, Europe as a whole, or even the United States?
- Should we proceed with caution in adopting a policy which would involve the U.S. in a region beset by ethnic and civil conflict?

In today's hearing we will ask our expert witnesses to attempt to sort out exactly what are and what should be U.S. interests in this region and how U.S. policy toward the Caucasus should be defined.

We have assembled a panel of well known experts on the region and we are especially please that Dr. Shaffer was able to come down from the John F. Kennedy School to be with us today.

Mr. HILLIARD. Thank you very much, Mr. Chairman. Mr. Chairman, let me also welcome the panel and let me also welcome them to discuss the issue before us.

As you know, America is in a state of conflict with other countries in the world, as well as other countries also in that same conflict. So it is extremely important that we look to this region and see what our policies should be as it relates to several issues.

Mr. Chairman and Members and distinguished guests, I am delighted that we are here with full intent to address the issues of the Caucasus and the Caspian region with the alliance of the United States' interests and policy.

The encounter between the principles of territory integrity, Armenians, and self-determination, Azerbaijan, has posed a conflict which we need to direct to constructive ends.

I support the efforts of democratization, creation of free markets and regional cooperation. I do not have all the answers to this conflict or the problems of the region, but I sincerely hope that you, the witnesses, will respond to the issues and suggest and recommend ways that America can direct its policies and interests in this region.

Again, I support the need to focus our efforts to construct the resolutions as to the environment of America. Thank you very much for being here to testify.

And, Mr. Chairman, once again let me thank you for convening this hearing.

[The prepared statement of Mr. Hilliard follows:]

PREPARED STATEMENT OF THE HONORABLE EARL F. HILLIARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman, Members and Distinguished Guests, I am delighted that we are here with full intent to address the issues of the Caucasus and the Caspian Region with the alliance of the United States Interests and Policy.

The encounter between the principles of territorial integrity (Armenians) and self-determination (Azerbaijan) has posed a conflict which we need to direct to constructive ends.

I support the efforts of democratization, creation of free markets and regional cooperation. I do not have all the resolutions of the conflict, but I sincerely hope, you the witnesses, will respond to the issues and suggest and recommend ways to reform or rectify these issues.

Again, I support the need to focus our efforts to constructive resolutions of the conflict.

Mr. GALLEGLY. Thank you very much, Mr. Hilliard.

At this point, I am going to turn the gavel over to the Chairman Emeritus of the full International Relations Committee, Mr. Ben Gilman of New York, because I have a quick markup that I have to go to, and I will return.

Mr. HILLIARD. Mr. Chairman, I also have a meeting that I would like to attend, and I will come back as soon as I can.

Mr. GILMAN. [Presiding.] Thank you, Mr. Chairman, and I want to thank you for holding this important hearing on the Caucasus and the Caspian region. I look forward to hearing our distinguished visitors, who will be testifying today.

I am a little concerned about the likelihood that the current effort against terrorism and the Taliban is attracting hitchhikers, thus we will be asked to overlook problems in democracy and human rights and the like among our allies no matter how important or unimportant their contribution. The current emergency is being used as an excuse for moving everything from fast track, on the Palestinian state and to undoing section 907 as it relates to Azerbaijan.

I think that the current emergency should be used only as a reason to push through these policy changes which are strictly necessary. Any other changes need serious deliberation. Just as we should not abandon our constitutional liberties to deal with the current crises, we should not throw out our underlying foreign policy positions and standards.

Let us not throw out the baby with the bathwater.

[The prepared statement of Mr. Gilman follows:]

PREPARED STATEMENT OF THE HONORABLE BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, thank you for holding this important hearing on the Caucasus and the Caspian Basin. I look forward to hearing our witnesses today.

I am a little concerned about the likelihood that the current effort against terrorism and the Taliban is attracting "hitchhikers." Thus, we will be asked to overlook problems in democracy, human rights, and the like among our allies, no matter how important or unimportant their contribution. The current emergency is being used as an excuse for moving everything from "fast-track" and a Palestinian state, to undoing Section 907 as it relates to Azerbaijan.

I think that the current emergency should be used *only* as a reason to push those policy changes which are strictly necessary. Any other changes need serious deliberation. Just as we should not abandon our constitutional liberties to deal with the current crisis, we should not throw out our underlying foreign policy positions and standards.

Mr. GILMAN. Mr. Sherman.

Mr. SHERMAN. I thank the distinguished Chairman Emeritus and acting Chairman of this Committee. And I thank also the Chairman of the Subcommittee and my Ventura County neighbor, Elton Gallegly, for holding these hearings. I also will not be able to spend as much time at these hearings as I would like.

If we look at the current situation and our need to take action against the Taliban, it has been suggested that perhaps the countries in the Caucasus would play an indispensable role. We do have existing military bases in Turkey and perhaps we would need to fly over these countries. And I am told that all three of the countries—and I should actually say there are four countries in the Caucasus, because Russia plays an important role there and has so much territory there.

But the three smaller countries in the Caucasus have given us overflight rights, so we can continue to use our bases in Turkey to fly over any combination of these three countries and then to fly over Kazakhstan or Turkmenistan and possibly Uzbekistan and Tajikistan in order to reach the targets in Afghanistan.

It has been suggested that we need bases in Azerbaijan. And I think looking at a map indicates that we do not. Kazakhstan is closer, and their ambassador has assured me personally, and their position publicly is, that we can base virtually as many of our forces in Kazakhstan as we would need; and Kazakhstan is closer to the center of our focus than is Azerbaijan. So there is really no reason to talk about eliminating section 907 in a trade for basing planes in Azerbaijan because Azerbaijan's location is not as useful to us as that of Kazakhstan.

I would also indicate that Uzbekistan is even closer, and while it has not offered unlimited basing rights, it actually has American bases there, which has been widely publicized.

So I think that our friends in Central Asia provide the basing rights that we need.

I also want to comment about Russia, the fourth and largest of the Caucasus countries. They have been extremely helpful, helpful beyond expectation, during the beginning of this war against terrorism; and that is something we should keep in mind.

There is a lot of discussion about the direction that Caspian oil needs to flow in order to reach world markets. We have talked

about south and we have talked about west and we have talked about pipelines. We should not forget that there is existing infrastructure and additional infrastructure that could be added going through Russia. And if Russia's level of friendship toward Europe and the United States is exemplified by its recent statements and actions, then perhaps there is no reason to find other routes through more dangerous areas for that oil to flow.

So, Mr. Chairman, I think that these hearings are called for, but perhaps a change in our foreign policy toward this region is not called for except, as I note, to take—to thank the Russians for their forthright stance during our hour of need.

Mr. GILMAN. Thank you, Mr. Sherman.

I will ask unanimous consent to insert into the record statements by Congressman Joe Knollenberg and by Mr. Bryan Ardouny, Director of the Government Relations for the Armenian Assembly of America.

[The information referred to follows:]

PREPARED STATEMENT OF THE HONORABLE JOE KNOLLENBERG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman and Members of the Subcommittee, I would like to thank and commend you for your interest in the Caucasus and Caspian region and for holding this important hearing on U.S. policy toward the region.

As a Member of the House Appropriations Subcommittee on Foreign Operations and as the Co-Chair of the Congressional Caucus on Armenian Issues, I have a long-standing interest in U.S. foreign policy generally and the Caucasus specifically.

After the horrific events of September 11th, it is necessary for Congress to carefully review U.S. policies in the Caucasus and Caspian region. We must ensure our policies support the security of the U.S. while at the same time remain vigilant about upholding our fundamental principles of democracy, human rights and justice. It is important for U.S. policy in the Caucasus to focus on conflict resolution and ensure open borders and commercial corridors between the nations. These principles are necessary for security, development and lasting peace.

Armenia is the United States' long-term ally in the region because of the permanent ties and shared values that exist between our two countries. Armenia is committed to help America in our fight against terrorism—offering the use of its airspace, intelligence sharing and other necessarily confidential support. Moreover, Armenia's President Robert Kocharian (current rotating president of the Collective Security Treaty of the post-Soviet Commonwealth of Independent States) is committed to take joint action against international terrorism. I would also note that Armenia is home to a unique medical institution initiated by the International Federation of the Red Cross and the Red Crescent Society following the tragic 1988 earthquake in Armenia. This International Post-Trauma Rehabilitation Center—the only one of its kind in the region—could prove a valuable resource to U.S. forces.

Mr. Chairman and Members of the Subcommittee, given Armenia's solidarity with the U.S. and strategic location, we must redouble our efforts to ensure stability in the Caucasus. Winners and losers in the region are simply unacceptable.

U.S. PIPELINE POLICY IN THE CAUCASUS—H. CON. RES. 162

Armenia is unnecessarily excluded in regional development projects and isolated from the West as a result of hostile actions by its neighbors. Specifically, the Turkish and Azerbaijani blockades of Armenia have caused severe economic hardship and greatly hinder Armenia's ability to reach its full economic potential. Despite the blockades, Armenia continues to make economic strides. In addition, Armenia also continues to reach out to its neighbors without preconditions. Unfortunately, Armenia's numerous proposals—from opening borders, restoration of rail and road links in the Caucasus, energy swaps, agreeing to the U.S. proposal to open mutual information centers in Turkey and Armenia, among others—have all been rejected. I am pleased to note, however, that some progress has been made in promoting improved Armenian-Turkish relations with the recent establishment of the Turkish-Armenian Reconciliation Commission (TARC). The Commission is an important step toward fostering a new era of mutual understanding and good will between Armenians and Turks. TARC provides a forum for direct dialogue to address issues that continue

to divide the people of Armenia and Turkey. State Department Undersecretary of State for Political Affairs, Marc Grossman, said in a letter to me that the "Reconciliation Commission is a big step forward" and that "improved Turkish-Armenian relations are important in their own right as well as key to regional peace and stability in the South Caucasus." I concur with his statement and believe that in this time of heightened security we must redouble our efforts to ensure that the Caucasus region is one of stability, peace, and regional integration.

I mention these few examples to underscore the point that Armenia is reaching out and taking constructive approaches with its neighbors. It is unfortunate that more progress has not been made. In order to jump-start progress on regional cooperation, I introduced H. Con. Res. 162 along with my colleagues: Joseph Crowley, Frank Pallone, Jr., and John Sweeney. This important resolution promotes regional cooperation and economic integration by calling for Armenia's inclusion in oil and gas pipeline routes and trade routes. H. Con. Res. 162 expresses the sense of Congress that the U.S. "should not subsidize any oil or gas pipeline in the South Caucasus whose commercial viability is in doubt or which hinders the United States goal of integrating Armenia into a secure and prosperous regional economic framework." Secretary of State Colin Powell has indicated that Armenia's integration into international institutions remains a priority for the United States. However, Armenia's exclusion from regional economic and commercial undertakings in the South Caucasus, such as the current Baku-Ceyhan pipeline route (which originates in Baku, Azerbaijan, goes around Armenia through Georgia, terminating in Ceyhan, Turkey), hinders U.S. policy goals in the region. The trans-Armenia route is the most reliable, direct and cost-effective route, and certainly one of the most tangible actions in support of regional cooperation. Exclusion of one country from regional projects only fosters instability and therefore undermines U.S. policy goals. The United States should make it clear that Armenia must be included in regional and trans-regional economic plans and projects. Without east-west transportation and commercial corridors, Armenia is forced to orient its strategic and trade policies on a north-south basis for its survival and continues to be isolated from the economies of the west. The United States must not acquiesce to Azerbaijan's demands to exclude Armenia from all east-west commercial corridors and energy routes.

As you know, H. Con. Res. 162 has been referred to this Subcommittee. I urge this Subcommittee to review all current and future oil and gas pipeline routes, as well as other east-west commercial corridors and regional development projects, to ensure that all countries of the South Caucasus are included. I also urge your favorable consideration of H. Con. Res. 162, which currently has over 40 cosponsors.

SECTION 907 OF THE FREEDOM SUPPORT ACT/NAGORNO KARABAGH PEACE PROCESS

As a result of the attacks on September 11th, some appear to be using this tragic event as an excuse to push certain positions, including repeal of Section 907. I believe the fundamental reasons for Section 907 that existed before September 11th continue to remain valid today. Section 907 places reasonable conditions on U.S. assistance to the government of Azerbaijan, until Azerbaijan has shown it has taken "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno Karabagh." Contrary to what some opponents of Section 907 have argued, Section 907 does allow for humanitarian, democracy-building, export financing and other types of assistance to Azerbaijan. In fact, over $250 million in U.S. humanitarian and democracy-building aid has been provided to the people of Azerbaijan.

The effect of the Azerbaijani blockade in coordination with Turkey's blockade against Armenia should not be underestimated. The blockade has affected the entire population of Armenia and Nagorno Karabagh, making the transport of much needed food, fuel, medicine and other commodities prohibitively expensive. Azerbaijan continues this blockade today and also continues its war rhetoric against Armenia and Nagorno Karabagh. In fact, during an interview on October 9, 2001with an Azeri newspaper, Vafa Guluzade (an ex-Azerbaijani presidential advisor) called for Armenians to be driven out of Azerbaijan. Specifically, Guluzade said that Azerbaijan "should fight and drive the Armenians out of Karabagh . . . Armenians should be driven out of Azerbaijan forever." This statement follows earlier calls this week by Azerbaijan's Defense Minister to resume military action against Nagorno Karabagh.

Azerbaijan's actions negate specific arguments to repeal Section 907. Removal of 907 will not only legitimize Azerbaijan's blockade, but will also remove an important incentive for President Heydar Aliyev to return to negotiations in the Nagorno Karabagh peace process. Mr. Chairman, I commend your support for Section 907 when the full House voted to maintain this principled provision of law in 1998. As

you know, Congress has repeatedly recognized the importance of Section 907—particularly with the 1998 House vote and a similar vote in the Senate the following year. Given the circumstances, I believe that Section 907 should remain in place. All Azerbaijan must do to remove Section 907 is lift its blockades of Armenia and Nagorno Karabagh.

CONCLUSION

Mr. Chairman, as a beacon for freedom and democracy we must do all we can to support democracies around the world, including the young democratic nations in the Caucasus. When I visited Armenia in 1997, I was impressed by its commitment to democracy and its shared values with the United States. Given Armenia's great strengths and potential, I am confident that Armenia will overcome the many challenges it faces. We must ensure that closed borders are opened, that conflicts are resolved and that all countries of the South Caucasus move forward together. I look forward to working with you and Members of the Subcommittee in the months ahead to formulate appropriate U.S. policy in this important region.

ATTACHMENTS

1. July 11, 2001 congressional letter to President Bush on U.S. pipeline policy in the Caucasus.
2. August 27, 2001 letter from Under Secretary of State for Public Affairs Marc Grossman in support of the Turkish-Armenian Reconciliation Commission.
3. October 1, 2001 congressional letter to U.S. Secretary of State Colin Powell in support of Section 907 of the Freedom Support Act.

Testimony of Bryan Ardouny, Director of Government Relations
On behalf of the Armenian Assembly of America
Before the House International Relations Subcommittee on Europe

October 10, 2001
Hearing on the Caucasus and Caspian Region: Understanding U.S. Interests and Policy

Mr. Chairman, Ranking Member Hilliard and Members of the Subcommittee, I would like to commend you for holding this timely hearing on U.S. Policy in the Caucasus and Caspian Region and thank you for the opportunity to submit testimony on this important topic.

The Armenian Assembly is the largest Washington-based organization representing Armenian-Americans and those who share our goals. One of our primary goals is to strengthen the U.S. relationship with Armenia and Nagorno Karabagh. The Assembly's extensive experience in Armenia and Nagorno Karabagh, working closely with key government agencies and officials, has provided us with unique insight on U.S. policy goals for the Caucasus region. The Armenian Assembly was the first western private voluntary organization (PVO) to establish a permanent office in Armenia following the earthquake of 1988. In addition, in 1996, the Assembly opened an office in Stepanakert, the capital of Nagorno Karabagh.

Given the tragic events of September 11th, we agree that it is important to carefully review U.S. policy goals in the Caucasus region. In so doing, we must balance the urgent need to ensure U.S. security with the long-standing U.S. objectives of establishing democracy, the rule of law, open economies, and civil society in the countries of the Caucasus and Caspian region. U.S. policy in the Caucasus should continue to focus on conflict resolution and ensure open borders and commercial corridors. Consideration of the Caucasus must also take into account Armenia's neighbors Turkey and Iran, as well as Russia, which extends to the Caucasus. We should also be concerned with the recent events in Abkhazia. We must resist short-sighted policies that will, in the long-term, undermine the stability and security of the region and, in turn, affect U.S. interests.

The natural bonds between Armenia and the United States remain strong. Armenia's vigorous commitment to help the U.S. in the battle against terrorism is a direct result of these enduring ties. This commitment is extended by all Armenians (and Armenian-Americans) and the Armenian Government is fully on board in the battle. In addition, Armenia's President Robert Kocharian, speaking on behalf of the members of the Collective Security Treaty (CST) of the post-Soviet Commonwealth of Independent States (CIS), called for joint action against international terrorism. Armenia currently holds the rotating presidency in this six-member defense grouping. The U.S. has already used Armenia's airspace, at Armenia's behest. In

addition, Armenia has offered intelligence sharing and other unspecified, necessarily confidential offers of support.

POLICY RECOMMENDATIONS

1. Section 907 of the Freedom Support Act/Nagorno Karabagh Peace Process

As the Subcommittee is aware, Section 907 restricts U.S. assistance to Azerbaijan until it removes its blockades of Armenia and Nagorno Karabagh. Taking advantage of the events of September 11th, it is clear that Azerbaijan has asked the United States to repeal a long-standing irritant for its government, Section 907. In concert with Azerbaijan's demands, Senator Sam Brownback (R-KS) has made several unsuccessful attempts to repeal Section 907. While the Armenian Assembly strongly supports President Bush in the war against terrorism, removing or weakening Section 907 without any change in behavior by Armenia's neighbors, has severe consequences and greatly upsets the delicate balance in the Nagorno Karabagh peace process. Any changes to Section 907 will have a negative impact and be perceived as a victory for the government of Azerbaijan. It will be perceived as an implicit endorsement of Azerbaijan's continued calls for military action against the people of Nagorno Karabagh and continued efforts to marginalize Armenia and Nagorno Karabagh via blockade. The effect of the Azerbaijani blockade in coordination with Turkey's blockade against Armenia should not be underestimated.

Having walked away from commitments that he made in Paris and Key West, Azerbaijani President Heydar Aliyev will have little incentive to return to the negotiating table if Section 907 is negated. Azerbaijan's actions follow a consistent pattern of intransigence and preference for resolving the conflict via military means. In fact, during the early 1990s, the government of Azerbaijan approved a large-scale deployment of mujaheddin fighters from Afghanistan to fight against the Armenians of Karabagh (see attached Assembly Issue Brief on Azerbaijan). In addition, Al Qaeda cells have been permitted to operate in Azerbaijan and the 1998 U.S. indictment against Osama bin Laden for the embassy bombings in Kenya and Tanzania drew clear connections to Azerbaijan. In these circumstances, repealing Section 907 and rewarding Azerbaijan with unfettered U.S. assistance is counterproductive to U.S. interests. The Assembly is deeply concerned about Azerbaijan's future actions should a major incentive to negotiate be removed at this time. **All Azerbaijan must do to remove Section 907 is to lift its blockades of Armenia and Nagorno Karabagh.**

As the Subcommittee is aware, Section 907 was enacted with the overwhelming support of Congress and with the support of the Bush Administration. In fact, Ambassador Richard L. Armitage, then Deputy to the Coordinator for U.S. Assistance to the Newly Independent States of the former Soviet Union (and now U.S. Deputy Secretary of State) testified for the Bush

Administration in support of Section 907 before the then House Foreign Affairs Committee in 1992.

As a landlocked nation, nearly 85 percent of all goods going in and out of Armenia had previously traversed Azerbaijan. In addition to defying U.S. law, the Azerbaijani blockade is in violation of OSCE mandates calling for the re-opening of closed borders. The blockade has cut off the transport of food, fuel, medicine and all other commodities, impacting the entire population of Armenia and Nagorno Karabagh. It has also precipitated a humanitarian crisis requiring the United States to send emergency assistance to Armenia. It has prevented the delivery of assistance to 300,000 Armenian refugees driven out of Azerbaijan and forced a shutdown of most of Armenia's industry, seriously damaging the Armenian economy and creating major unemployment. By obstructing the delivery of gas, the blockade created unbearable conditions during winters when the Armenian population had to live without heat, Armenian children had to do without schooling, and hospitals were unable to care for the sick. As a result of the ongoing blockades, a disproportionate share of U.S. assistance was dedicated to humanitarian needs as opposed to short-and medium-term economic development projects. In fact, the effects of the blockade continues today, stalling Armenia's economic development, impacting the mix of U.S. inputs and indefinitely setting back the process of economic integration among the nations of the South Caucasus and Central Asia with the West.

The Clinton Administration, instead of enforcing U.S. law, spent considerable effort trying to repeal Section 907. Congress, however, recognized the value and importance of Section 907 and continued to uphold it as demonstrated by floor votes in the House and Senate in 1998 and 1999 respectively. During the extensive floor debate in both chambers, proponents of Section 907 clarified some of the misperceptions about it. For example, Section 907 does not prevent Azerbaijan from receiving humanitarian and democracy-building aid. In fact, over $250 million in U.S. humanitarian and democracy-building assistance has been provided to the people of Azerbaijan. In addition, Section 907 does not prevent Trade and Development Agency guarantees and insurance for U.S. firms, or Foreign Commercial Service Operations, or the activities of the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank. Thus, U.S. businesses are not placed at a competitive disadvantage.

The Assembly applauds Congress for maintaining Section 907, which has had a positive impact in the Nagorno Karabagh peace process. If it were not for Congress, opponents of Section 907 might have succeeded in their lopsided approach to the Caucasus – repealing Section 907. In its current form, Section 907 constitutes a focused, appropriate message to the government of Azerbaijan that the U.S. will not support efforts to marginalize, via blockade, entire populations of neighboring states. Based on all of the above, the Assembly strongly opposes any weakening of Section 907 of the Freedom Support Act until the government of Azerbaijan complies with the reasonable conditions set forth in the law.

2. U.S. Pipeline Policy in the Caucasus

Although Armenia has been able to successfully implement economic reform measures, as long as Armenia remains blockaded on its eastern and western borders and is isolated from regional development projects at Azerbaijan's demands, Armenia will not be able to reach its full economic potential. The Assembly remains concerned that one legacy of isolation left behind by the Clinton Administration may continue – specifically, the flawed pursuit of the Baku-Ceyhan pipeline route, which bypasses Armenia at a significant cost. Despite the reluctance of major U.S. oil companies, the Clinton Administration promoted the Baku-Ceyhan pipeline, the viability of which many experts now question. In Cato's Foreign Policy Briefing *The Great Game, Round 2: Washington's Misguided Support for the Baku-Ceyhan Oil Pipeline*, Stanley Kober notes that the pipeline "far from promoting U.S. interests in the region, undermines them." Another report by the Carnegie Endowment for International Peace reinforces Cato's conclusion that the Baku-Ceyhan pipeline is not commercially viable and notes that pursuit of this pipeline only "exacerbated tensions between the United States and Russia and did little to advance U.S. interests."

We hope that this Subcommittee will have a broader vision for the South Caucasus and unlike the prior Administration, will not accept Azerbaijan's unilateral demand that the Baku-Ceyhan pipeline route bypass Armenia. If this route is ever found to be commercially viable, then the trans-Armenia route is the most reliable, direct and cost-effective route, and certainly one of the most tangible actions in support of regional integration (see attached Assembly Fact Sheet on Pipeline Issues). The Assembly strongly encourages the Subcommittee to review all current and future oil and gas pipeline routes, as well as other east-west commercial corridors and regional development projects, to ensure that all countries of the South Caucasus are included.

To this end, the Assembly strongly supports H. Con. Res. 162, which was introduced by Congressman Joe Knollenberg (R-MI), along with Congressmen Frank Pallone, Jr. (D-NJ), Joseph Crowley (D-NY) and John Sweeney (R-NY). This important resolution, which has been referred to your Subcommittee, calls for the careful evaluation of the Baku-Ceyhan Pipeline route and states that the U.S. should not subsidize pipelines "whose commercial viability is in doubt or which hinders the United States' goal of integrating Armenia into a secure and prosperous regional economic framework." Exclusion of one country in regional projects only fosters instability. The United States should make it clear that Armenia must be included in regional and trans-regional economic plans and projects. Without east-west transportation and commercial corridors, Armenia is forced to orient its strategic and trade policies on a north-south basis for its survival and continues to be isolated from the economies of the west. The United States must not acquiesce to Azerbaijan's demands to exclude Armenia from all east-west commercial corridors and energy routes. If the Caucasus region is to move forward, we must ensure that all countries move forward together at the same time. Winners and losers in the Caucasus will not promote regional stability, economic integration and peace. We hope the Subcommittee will favorably consider H. Con. Res. 162 and urge its timely adoption.

3. Democratization is Needed to Reduce the Threat of Terrorism

Strengthening civil society and the fundamental tenants of democracy within the countries in the Caucasus and Caspian region are essential elements in the war against terrorism, including state-sponsored terrorism. The United States must carefully study U.S. policies in this region and not make rash decisions that could, in the long run, jeopardize U.S. interests. The U.S. policy toward Azerbaijan that is being urged at the behest of special interests does just that. Azerbaijan is using the fact that the U.S. and international community are now focused on the anti-terrorist operation in Afghanistan, to crackdown against free press and political opposition. In recent weeks, the Azerbaijan government shut down several newspapers and arrested a number of journalists and opposition members. The U.S. Ambassador to the OSCE has expressed the Administration's concern over these developments.

In the quest to root out terrorism, U.S. policy must carefully balance the need to protect innocent civilians. Throughout history, Armenians have faced near extermination under the cover of war; the Armenian Genocide of 1915 serves as a vivid reminder and important lesson. The unfortunate reality is that genocide, ethnic cleansing and other crimes against humanity occur all too readily in such times. Therefore, we urge you to vigilantly uphold the fundamental principles of justice, democracy and human rights that have made America great.

4. Conclusion

Mr. Chairman, the strong and natural bonds that exist between the United States and Armenia are readily apparent in Armenia's ongoing support of America. Armenia views the United States as a strategic partner and friend who responded during times of desperation. Armenia, a centuries-old Christian country, stands at the crossroads of Europe and Asia and on the front lines in the new war against terrorism. Armenians, both in Armenia and Nagorno Karabagh, look to the United States as the leader of the western world and a beacon of hope in defense of freedom and self-determination around the globe. They stand ready to help America ensure that the evils of terrorism are stamped out and that justice is done.

We greatly appreciate your attention to these very important matters and look forward to working with Members of the Subcommittee in the coming months. Thank you.

Attachments

Armenian Assembly of America *ISSUE BRIEF*

Research & Information Office **September 10, 2001**

AZERBAIJAN AND ISLAMIC TERRORISM

According to the Associated Press, the Congressional Research Services (CRS, 9/10/2001) issued a report noting that individuals and groups affiliated with the international terrorist Osama Bin Laden and his Al Qaeda organization used Azerbaijan as one of the bases in its elaborate terrorist network. Some reports suggest that various radical Islamist groups had operated in Azerbaijan even before its 1991 independence. However, the real increase in their presence took place after the 1993 military coup, when the government of Heydar Aliyev approved a large-scale deployment of mujaheddin fighters from Afghanistan and other countries to join in the fighting against the Nagorno Karabagh Armenians.

Azerbaijan has used the Karabagh conflict, characterizing it as a religious war, to cultivate ties in the Islamic world. These ties, including overtures to radical Jihad-oriented organizations, have been aimed at diplomatically isolating Armenia and raising financial and military assistance for a new military campaign against Karabagh. Since 1998, in the wake of the U.S. embassy bombings in Kenya and Tanzania, the Azerbaijani government came under pressure from Washington to clamp down on radical Islamist groups that operate in Azerbaijan. But as recent reports show, radical Islamist groups are entrenched in Azerbaijan and will be very difficult to eradicate. The information below refers to the main stages of development of Islamist terrorism in Azerbaijan in the past decade:

- Azerbaijan experienced a wave of "Islamic Revival" in the late 1980s - early 1990s that led the way to the creation of many indigenous Islamist groups espousing violent ideology and establishment of relations with similar organizations abroad. The most overt expressions of Islamic solidarity by Azeris were made in 1990 and 1991, when residents of districts bordering **Iran** destroyed most of the frontier installations to fraternize with Iranians, just as several newly-established Azeri Islamist groups offered to provide volunteers to fight in the Gulf War on the side of **Saddam Hussein**. A member of ***Al Qaeda***, Jamal Ahmed el-Fadl, arrested by the FBI for his role in the 1998 embassy bombings, claimed his organization became active in Azerbaijan as early as 1989. (*Trans-Caspian Project* 10/3/00, *Ekho* 9/1/01)
- In the summer of 1993, President Heydar Aliyev deployed over **1,000 Islamist mercenaries** in the war against Karabagh Armenians. They were flown on civilian aircraft from Afghanistan to Azerbaijan. The mercenaries, which also included Arab veterans of the Afghan war (1979-89), took an active role in the Karabagh conflict. (*Moscow News* 9/13/00) A Bin Laden associate claimed that **Bin Laden** himself led *mujaheddin* in at least two Karabagh battles. (*Associated Press* 11/14/99)
- Following the armistice that took hold in Karabagh in May 1994, most of the *mujaheddin* left Azerbaijan to fight in other hot spots, such as the North Caucasus and Balkans. Others, however, remained to establish what was soon described as "the new hub" for Islamist radicals that involved a network of training camps, mosques, charitable organizations and underground cells. Ibrahim Eidarous, later arrested in Europe by the FBI for his role in the 1998 embassy bombings, headed the Azerbaijani branch of ***Al Qaeda*** between 1995 and 1997. In 1997, radical Islamist groups with branches in Azerbaijan reportedly pledged their support for President Heydar Aliyev against Armenians, in exchange for a safe haven in Azerbaijan. (*Strategic Policy* 10/99; *Ekho* 9/1/01)
- In August 1998, the Azerbaijani branch of the "Islamic Jihad" organization, which by then had merged with Osama Bin Laden's ***Al Qaeda***, reportedly coordinated the bombings of the **U.S. Embassies in Kenya and Tanzania** that killed 224 people and wounded nearly 4,600. The FBI was able to trace about 60 phone calls made from the satellite phone used by Bin Laden to his associates in Baku and from them to operatives in East Africa. The U.S. Embassy in Azerbaijan also feared an attack, but as a local radical claimed, they did not attack the Embassy so as "not to spoil their good relations in Azerbaijan." (*Zerkalo* 7/22/00; *Bill of Indictment in U.S.A. vs. Bin Laden et. al.* 4/01; *Washington Post* 5/3/01; *Ekho* 8/28/01)
- Following the 1998 embassy bombings, Azerbaijan came under increased U.S. pressure to curtail radical Islamist activity on its territory. However, Azerbaijan refused to hand over suspected terrorists to the U.S., so

Prepared by Research & Information Office of the Armenian Assembly of America
122 C Street, NW, Suite 350 • Washington, DC 20001 • (202) 393-3434 • FAX: (202) 638-4904 • E-mail: info@aaainc.org

75-632 D-01--2

as not to "earn the ire of Islamist fundamentalists", extraditing them instead to their native countries. One of the extradited terrorism suspects, Ahmad Salam Mabrouk, who at the time headed the local branch of ***Al Qaeda***, was detained while trying to acquire **chemical and biological weapons** in Azerbaijan. (*Aviation Week & Space Technology* 10/12/98; *Agence France Presse* 3/18/99; *London's Sunday Times* 7/18/99; *Zerkalo* 7/22/00; *Ekho* 8/29/01)

- Azerbaijan, nevertheless, continues to be an attractive destination for the international terrorist networks, particularly those based in Afghanistan. In late 2000, head of the UNHCR mission in Azerbaijan Didier Laye noted that most asylum-seekers that arrive in Azerbaijan come from Afghanistan. (Azerbaijan and Afghanistan have no direct borders, are not ethnically related and there is no infrastructure in Azerbaijan to support these arrivals. In the absence of alternative reasons, Azerbaijan is an odd destination for Afghans.) In the Azeri capital, mosques influenced by Islamist radicals attract a large following. That following reportedly includes even some senior members of President Aliyev's staff. Most recently, the local media speculated that should **Bin Laden** be forced to flee Afghanistan, he may appear in Azerbaijan. Over the years, Bin Laden's sympathizers have moved out of Azerbaijan's capital, Baku, to establish camps in rural areas of the country, particularly in the remote mountainous areas in the largely Sunni Muslim north of the country. (*Strategic Policy 10/99; Turan* 11/21/00; *Ekho* 5/2/01)
- In the words of one Islamic scholar, Azerbaijan is a part of the **"Global *Intifada*"** that also includes Palestine, the Balkans and Kashmir. As recently as a few weeks ago, sources in the Azerbaijani Ministry of National Security, cited by local media, confirmed that radical organizations, such as Bin Laden's ***Al Qaeda***, continued to be active in Azerbaijan. Two weeks ago, Egyptian citizen Mahmoud Yaballah was arrested for his connection to the U.S. Embassy bombings, while trying to enter Canada after flying in from Azerbaijan. (*Ekho* 9/1/01)

*Azerbaijan is an authoritarian state, where President and former KGB General Aliyev and his cohorts in effect control all spheres of life. The Aliyev government, which came to power by means of a military coup, has repeatedly banned political parties and media outlets, stolen elections and thrown thousands of its political opponents in jail. It is highly unlikely that groups such as Bin Laden's **Al Qaeda** could operate in Azerbaijan without at least some consent from President Aliyev. The Aliyev government is thus treading a thin line between international terrorists, whom it cultivated to fight its wars, and the international community, which can no longer ignore this reality.*

Sources

In addition to reports in the above-noted and well recognized sources, such **as AFP, AP, Aviation Week & Space Technology, The Times** and **Washington Post**, this issue brief is based on the following additional sources:

Ekho and ***Zerkalo*** are leading Russian-language daily newspapers in Azerbaijan and can be found at www.zerkalo-daily.com and www.zerkalo.az. In August-September 2001, Ekho featured a series of articles on ties between Bin Laden and Azerbaijan written by its Deputy Editor Nair Aliyev.

Moscow News is a leading English-language liberal weekly newspaper published in Russia and can be found at www.mn.ru. In September 2000, it featured an article on connections between Chechnya, Azerbaijan, Afghanistan and the Islamist terrorist network, written by its Azerbaijan correspondent Sanobar Shermatova.

Strategic Policy (formerly Defense & Foreign Affairs) is a monthly international affairs report published in Alexandria, VA and found at http://www.strategicstudies.org/dfa.htm. Its October 1999 issue featured an extensive article by Yossef Bodansky, Director of the U.S. Congressional Task Force on Terrorism and Unconventional Warfare.

TransCaspian Project is an online reporting and analytical service on Caspian regional affairs (found at http://www.transcaspian.ru). Its October 3, 2000 report featured an analysis by Alexey Malashenko of the Moscow office of the Carnegie Endowment for International Peace.

Turan is the leading news agency in Azerbaijan and can be found at http://www.turaninfo.com.

Prepared by Research & Information Office of the Armenian Assembly of America
122 C Street, NW, Suite 350 • Washington, DC 20001 • (202) 393-3434 • FAX: (202) 638-4904 • E-mail: info@aaainc.org

Armenian Assembly of America *ISSUE BRIEF*
Research and Information Office **July 30, 2001**

Baku-Ceyhan Energy Transportation Route through Armenia

Armenia is the best transit option for deliveries of oil and gas from Azerbaijan to Turkey. In terms of distance, terrain and infrastructure routing the East-West energy corridor through Armenia has significant cost benefits. It also presents a unique opportunity for improvement of the overall political climate in the region and contributes to regional economic development.

Background: The United States supports multiple pipelines to bring Caspian oil to world markets. The United States supports these pipelines because it believes that they would diversify U.S. sources of energy, promote U.S. business interests and strengthen the independence of regional states.

A BP-led consortium is now developing three oil and one gas field in the Caspian Sea off the coast of Azerbaijan. BP currently transports most of the oil it produces through pipelines to Supsa, Georgia or Novorossiisk, Russia, both located on the Black Sea coast, and from there through the Bosphorus to Europe. The Russian and Georgian pipelines together can handle about 250,000 barrels of oil per day (bpd). As more oil comes on line, and as gas deposits are developed, BP is considering a larger oil pipeline, and a parallel gas pipeline, to transport hydrocarbons from the landlocked Caspian to open seas and from there to world markets. The United States would like to see a new pipeline built from Baku, Azerbaijan to Ceyhan, Turkey that avoids Russia and Iran, two regional energy exporting competitors, and does not contribute to increased tanker traffic through the Bosphorus. Parallel to the new oil pipeline, the U.S. would like to see a new line bringing gas from Azerbaijan to Turkey.

There are two ways to bring oil and gas from Azerbaijan to Turkey, while avoiding Iran and Russia: through either Georgia or Armenia.

Distances: An oil pipeline from Baku through Georgia would be 1,200 miles long. An oil pipeline through Armenia would be 130 miles shorter. A gas pipeline from Baku to Turkey's city of Erzurum through Georgia would be about 700 miles long, while one through Armenia about 570 miles long.

Costs: A Baku-Ceyhan pipeline through Georgia would cost between $2.8 and $2.9 billion, as estimated by BP-Amoco - an increase of about 20% from the inital estimate of $2.4 billion. Other estimates are higher. In a paper published last year, Robert Manning of the Council on Foreign Relations put the price tag at $3.8 billion (he based his figure on estimates of major Western oil company officials.) This pipeline has been widely criticized in the U.S. as not commercially viable. Armenia's Ministry of Energy estimates that a similar oil pipeline through Armenia would cost at least half a billion less. Although no cost estimates for a gas pipeline between Baku and Erzurum have been made public, a line through Armenia would be shorter, and therefore less expensive.

Terrain and Infrastructure: A shorter distance, plus topography, accounts for the cost difference. While both Georgia and Armenia are mountainous countries, a line through Armenia can be laid along a developed rail road route stretching continuously from Azerbaijan's Kasakh through Armenia to Turkey's Kars and beyond. A similar line through Georgia would first follow a developed route from Azerbaijan through central Georgia. But to avoid local hot spots that remain outside of Georgian government control, the pipeline would have to turn south through rugged and undeveloped terrain between Georgia and Turkey.

Politics: The Azerbaijani government is opposed to any economic cooperation with Armenia. Together with Turkey, Azerbaijan has blockaded Armenia for the past twelve years. Azerbaijan has tried but failed to force Armenia into concessions in the Karabagh issue by isolating that country politically and economically. This policy has been widely criticized as counter-productive by both Armenian and Western officials. An increasing number of Azerbaijani politicians have also argued that a stable peace with Armenia can be forged through economic cooperation. The current Azerbaijani policy may be discarded, as the aging authoritarian rulers of Azerbaijan depart its political scene. Resumed economic ties between Armenia and Azerbaijan would build mutual confidence necessary for a peaceful settlement.

Leading American think-tanks have written that pursuit of Baku-Tbilisi-Ceyhan "exacerbates tensions" and, "far from promoting U.S. interests in the region, undermines them." A pipeline by-passing Armenia would support the outdated and parochial policies of the Azerbaijani rulers of today. It will also make re-establishment of economic ties and peace between two neighbors more difficult. Pipelines already connect Azerbaijan with Georgia and Russia. There is a pipeline going from Georgia to Armenia, the two countries enjoy friendly relations and there are plans for more North-South corridors. U.S. policy that aims to strengthen the independence of regional states and end the region's simmering conflict should take advantage of a unique opportunity to use a pipeline to tie Armenia and Azerbaijan together.

United States Department of State

Under Secretary of State
for Political Affairs

Washington, D.C. 20520

August 27, 2001

Dear Mr. Knollenberg:

I welcome Congressman Pallone's and your recent support for the creation of the Turkish-Armenian Reconciliation Commission. This Administration strongly encourages efforts to improve relations between Turkey and Armenia, including civil society initiatives such as the Reconciliation Commission. Improved Turkish-Armenian relations are important in their own right as well as key to regional peace and stability in the South Caucasus.

The civil society contacts that have taken place are encouraging, and we believe that both Turkey and Armenia are intent on making progress. We continue to have confidence that civil society and government-to-government dialogue will best enable Armenia and Turkey to move beyond their painful past toward a more peaceful future. The U.S. Government will continue to support Turkish and Armenian efforts with the understanding, of course, that it is the responsibility of both governments to work together for improved relations. This Administration believes a people-to-people initiative such as the Reconciliation Commission is a big step forward.

We have great respect for the participants involved in these efforts and join with you in encouraging Turks, Armenians, and Armenian-Americans to continue to promote better relations between Turkey and Armenia.

Sincerely,

Marc Grossman

The Honorable
Joe Knollenberg,
House of Representatives.

Congress of the United States

Washington, DC 20515

October 1, 2001

The Honorable Colin Powell
Secretary of State
2201 C Street, N.W.
Washington, DC 20520

Dear Secretary Powell:

We are writing to urge you to maintain Section 907 of the Freedom Support Act in its current form and oppose efforts to repeal this important provision of law. Section 907 places reasonable conditions on U.S. assistance to the government of Azerbaijan, until Azerbaijan has shown that it has taken "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno Karabagh."

We are concerned about credible reports that the Azerbaijani government invited Osama Bin Laden and his network into its country. Given this information, the U.S. government should carefully review its relationship with Azerbaijan – not reward it with repeal of Section 907. At a minimum, we believe U.S. interests are best served by insisting that Azerbaijan arrest and turn over those involved in the Al Qaeda cells operating there with the government's approval since the early to mid 1990s. These cells threaten all of us, and Armenia is on the front line of this battle.

To date, Azerbaijan has done nothing to warrant repeal of Section 907 including continuing its war rhetoric, rejecting U.S./European Union calls for cooperation with Armenia, rejecting specific proposals by Armenia for economic and regional cooperation, and backing away from the commitments made by Azerbaijani President Aliyev during peace negotiations in Paris and Key West.

The effects of the Azerbaijani blockade should not be underestimated. The blockade has effected the entire population of Armenia and Nagorno Karabagh, making the transport of much needed food, fuel, medicine and other commodities prohibitively expensive. Not only does the blockade defy U.S. law, but it also violates OSCE mandates calling for the re-opening of closed borders. Additionally, the effects of the blockade continue to stall Armenia's economic development, impacting the mix of U.S. inputs and indefinitely setting back the process of economic integration among the nations of the south Caucasus and Central Asia.

Given the ongoing, sensitive peace negotiations, efforts to weaken or repeal Section 907 only serve to legitimize Azerbaijan's immoral blockade and would make its position at the negotiating table even more intransigent. Moreover, repeal of Section 907 is no way to reward Armenia's solidarity with America's campaign against international terrorism.

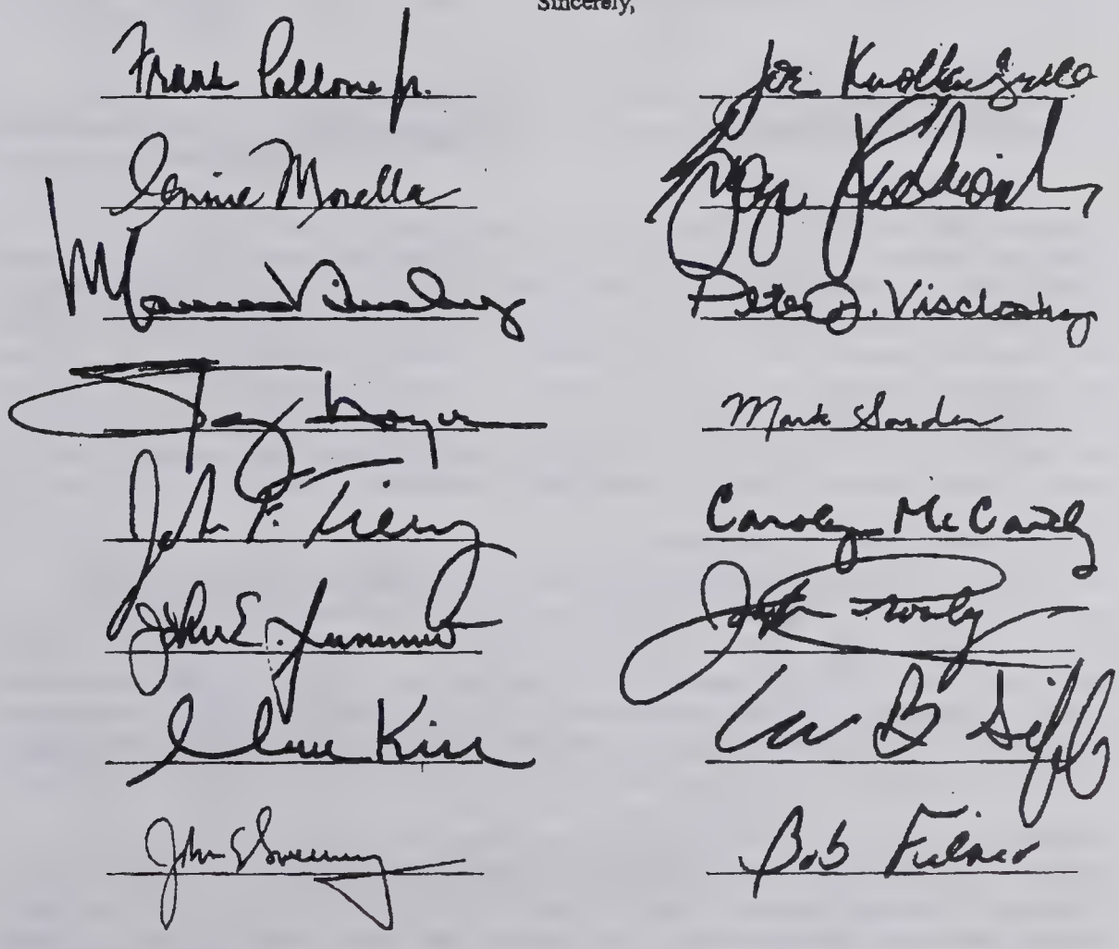
Armenia's early response to the attack was to first assist American staff at our U.S. Embassy in Armenia's capital to insure the Embassy's security. Armenia's President, speaking on behalf of the members of the Collective Security Treaty (CST) of the post-Soviet Commonwealth of

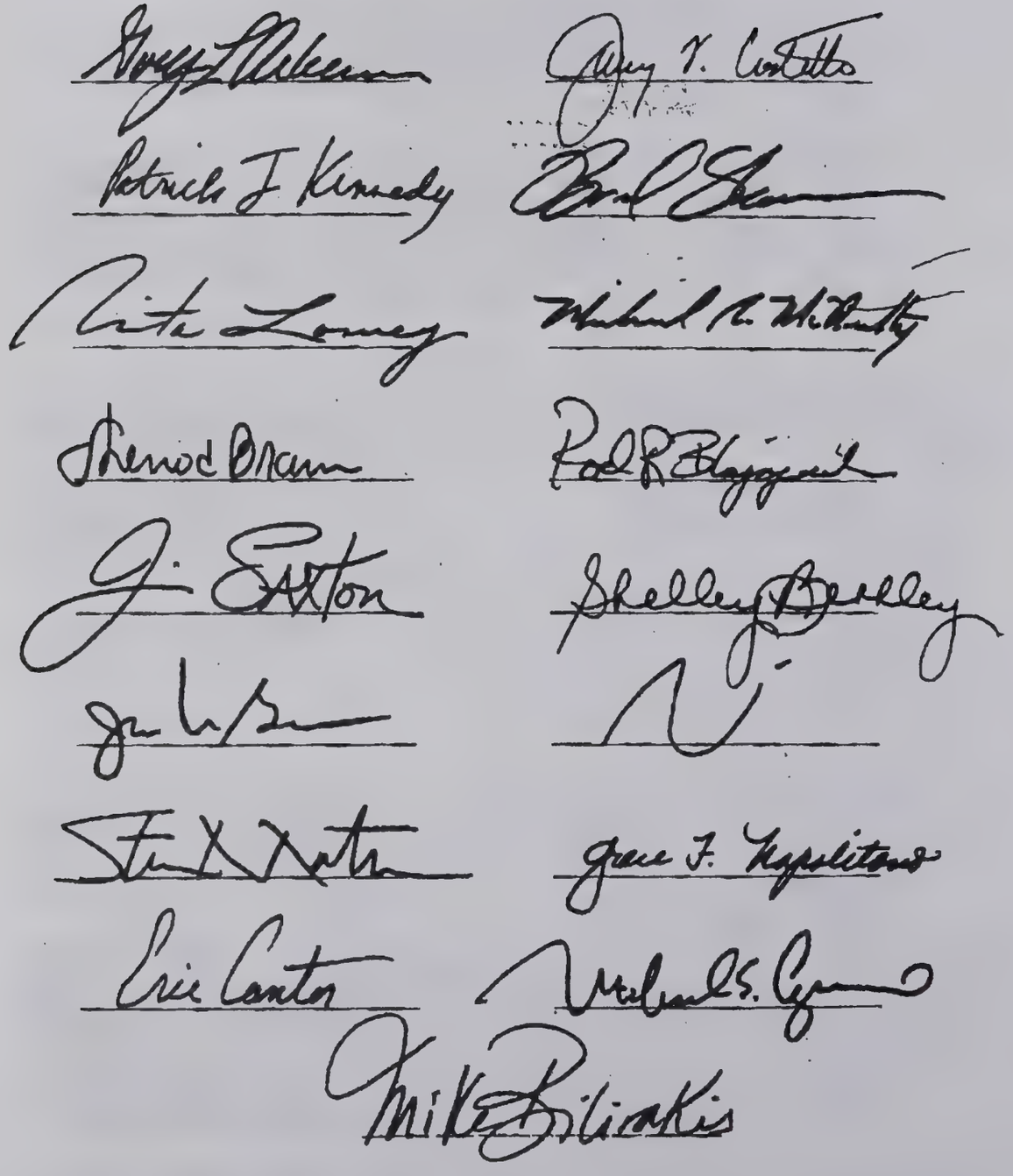
PRINTED ON RECYCLED PAPER

Independent States (CIS), called for joint action against international terrorism. Armenia currently holds the rotating presidency in this six-member defense grouping. Armenia has also offered and the US has already used Armenia's airspace. In addition, Armenia has offered intelligence sharing and other unspecified offers of support.

In its current form, Section 907 constitutes a focused, appropriate message to the government of Azerbaijan that the U.S. will not support efforts to marginalize, via blockade, entire populations of neighboring states. This law was enacted with the overwhelming support of Congress and with the support of the Bush Administration in 1992. Since enactment, Congress has affirmed the value and importance of Section 907 as demonstrated in the floor votes in the House and Senate in 1998 and 1999 respectively. Now, more than ever, Congress must uphold the fundamental and enduring U.S. principles of justice, democracy, and human rights.

Sincerely,





Congress of the United States

Washington, DC 20515

July 11, 2001

The President
The White House
Washington, D.C. 20500

Dear President Bush:

We are writing to express our concern regarding the National Energy Policy Development Group (NEPD) recommendation to support the Baku-Ceyhan pipeline and its assumed commercial viability.

Despite its proclaimed multiple pipeline policy, the Clinton Administration exclusively promoted the Baku-Ceyhan pipeline, the viability of which many experts question. In Cato's recent Foreign Policy Briefing *The Great Game, Round 2: Washington's Misguided Support for the Baku-Ceyhan Oil Pipeline*, Stanley Kober notes that the pipeline "far from promoting U.S. interests in the region, undermines them." Another report by the *Carnegie Endowment for International Peace* reinforces Cato's conclusion that the Baku-Ceyhan pipeline is not commercially viable and notes that pursuit of this pipeline only "exacerbated tensions between the United States and Russia and did little to advance U.S. interests. Given this analysis, we believe that the United States should take a more balanced approach to energy resources in the Caucasus.

As you may know, the proposed Baku-Ceyhan pipeline route originating in the Azerbaijani capital of Baku and terminating at the Turkish port of Ceyhan via Georgia, explicitly bypasses Armenia at the insistence of Azerbaijan. The demands by Azerbaijan to bypass Armenia come despite the knowledge that a trans-Armenia route is the most reliable, direct and cost-effective route, and certainly one of the most tangible actions in support of regional integration and cooperation. It has been estimated that a pipeline from Baku to Ceyhan that traverses Armenia would save approximately $600 million over the current proposed route.

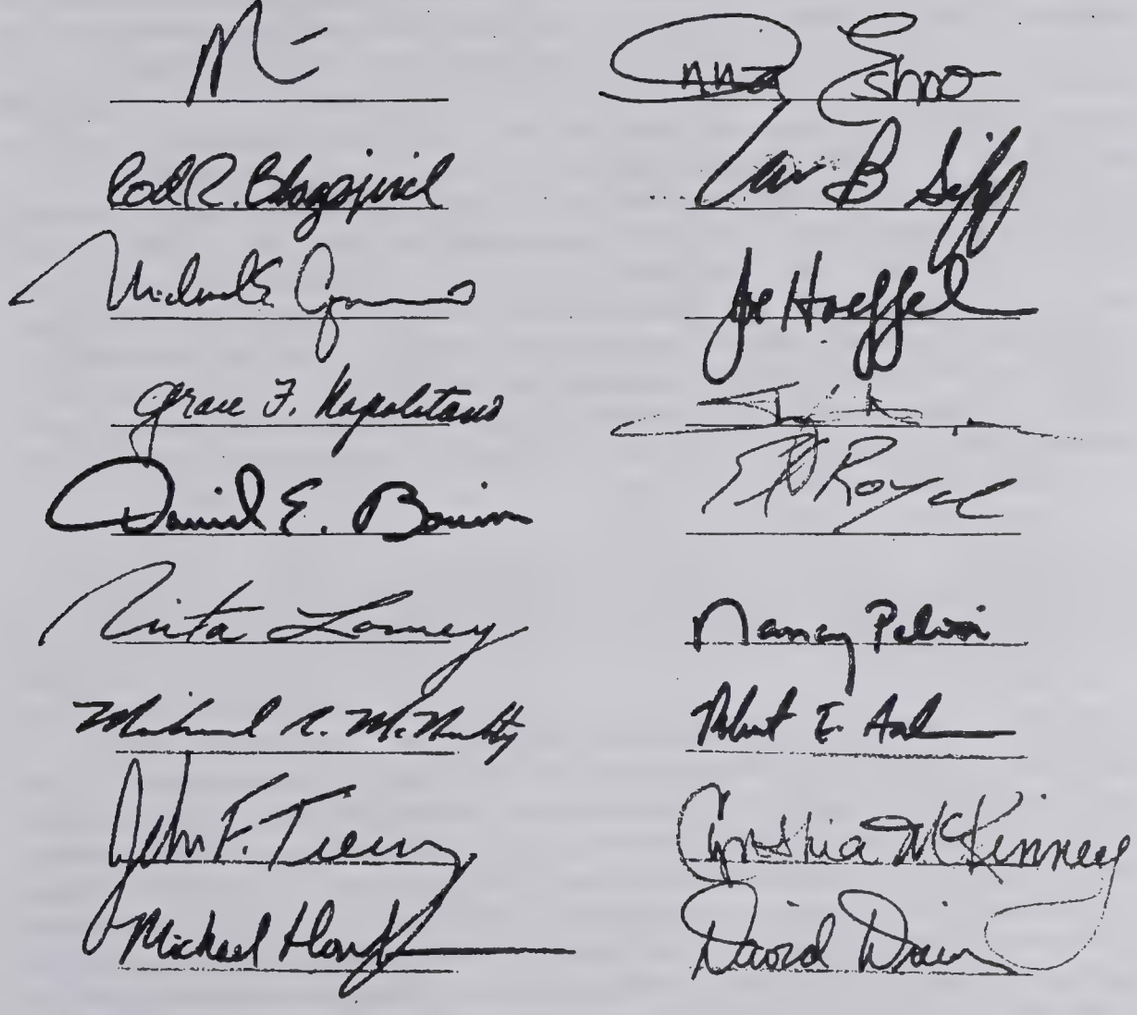
Exclusion of one country in regional projects only fosters instability. The United States should make it clear that Armenia must be included in regional and trans-regional economic plans and projects. Without east-west transportation and commercial corridors, Armenia is forced to orient its strategic and trade policies on a north-south basis for its survival and continues to be isolated from the economies of the west. The United States must not acquiesce to Azerbaijan's demands to exclude Armenia from all east-west commercial corridors and energy routes. If the Caucasus region is to move forward, we must ensure that all countries move forward together at the same time. Choosing winners and losers in the Caucasus will not promote regional stability, economic integration and peace.

Secretary of State Colin Powell has stated that Armenia's integration into international institutions remains a priority for the United States. However, continuing the prior Administration's policy of unilateral acceptance of Azerbaijan's demands that the pipeline bypass Armenia runs counter to U.S. policy objectives for the region and only serves to further isolate Armenia. Armenia's exclusion from regional economic and commercial undertakings in

the South Caucasus hinders U.S. policy goals of promoting regional stability based upon the development of strong political, economic and security ties among all countries of the Caucasus and the United States. Therefore, we believe that Armenia, which represents the most reliable, direct and cost-effective East-West oil and gas pipeline route, must not be excluded.

We strongly urge you to reexamine the NEPD Group's recommendations regarding the Caucasus and review all current and future oil and gas pipeline routes, as well as other east-west commercial corridors and regional development projects, to ensure that all countries of the South Caucasus are included.

Sincerely,



Mr. GILMAN. I am now pleased to call on Charles Fairbanks, Jr. Fellow at the Central Asia-Caucasus Institute and research professor of International Relations at Johns Hopkins School of Advanced International Studies in Washington. After pursuing his studies at Yale and Cornell, he received his doctorate at the University of Chicago in 1973; and during the years 1971 to 1973 he taught political science at the University of Toronto, and then from 1974 to 1981 at Yale University.

From 1981 to 1984, Mr. Fairbanks worked in the Department of State as a member of the policy planning staff and as a Deputy Assistant Secretary. Dr. Fairbanks is currently editing a book of essays on what lessons we should learn from the unexpected collapse of Communism. He was a foreign policy advisor to the Reagan campaign in 1980 and the Bush campaign in 1988.

Mr. Fairbanks, you may proceed to put your full statement in the record and summarize it if you deem it appropriate, however you may want to proceed.

Please proceed, Dr. Fairbanks.

STATEMENT OF CHARLES H. FAIRBANKS, PH.D., DIRECTOR, CENTRAL ASIA-CAUCASUS INSTITUTE, SCHOOL OF ADVANCED INTERNATIONAL STUDIES, JOHNS HOPKINS UNIVERSITY

Mr. FAIRBANKS. Thank you very much. It is rather strange to sit here testifying on the Caucasus when the country's attention is riveted by Afghanistan and the necessary struggle against terrorism.

But it was not only the existence of al-Qaeda or of Osama bin Laden that made the terrible acts of September 11 possible. It was a combination of factors interacting together—fanatic groups, weak states which cannot or will not control them, strong states that are maneuvering behind those groups and inside weak states, such as Afghanistan, and unresolved armed conflicts like the conflict between the Taliban and the Northern Alliance.

All those things are part of the preconditions of what we suffered earlier in September. I think all those conditions exist in the Caucasus.

The Caucasus, particularly the north Caucasus, is a potential Afghanistan. And I share Congressman Sherman's concerns that our response to terrorism may be too much linked to one specific threat and not enough directed toward eliminating threats that will occur in the future.

I am going to discuss two topics, threats to Georgian independence, which I am sure—as I know Dr. Baran will talk about in more detail and the Nagorno-Karabakh peace process. The former I talk about because I have actually been to the much discussed Pankisi Gorge in Georgia, which is the topic of repeated Russian Government and media threats against Georgia, and President Shevardnadze's recent visit was very much related to that problem as he saw it. It is an interesting place.

I will just give some conclusions partly on the basis of interviews and wandering a bit in the Pankisi Gorge area where there are Chechen refugees, partly based on the testimony of humanitarian organizations, anthropologists and local people, both local Kisty or Chechen-speaking Georgians and actual Chechen refugees there.

All of those groups, when I was there, which was in August, 2000, concurred in doubting that there were any effective or operational Chechen fighters in the Pankisi Gorge area. And I think in spite of repeated claims to this effect, the mere geography of it makes it likely.

There are no motorable roads directly between the Pankisi Gorge and the Chechen border; one has to go through Tbilisi or even more indirect routes. So, personally, I believe that Russian claims about the Pankisi Gorge as a Chechen base are greatly exaggerated. And I am puzzled that our government has given so much attention to those claims.

There is, certainly, a serious problem. When I went there, there was not a single Georgian policeman or soldier in the Pankisi Gorge. They have been in and out since then. There were no policemen there when I was there, but I was stopped on the roads to and from Pankisi by five police roadblocks, extorting money for fictitious traffic violations.

This isn't purely Georgian; it is an industry throughout the former Soviet space. In other words, the more genuine problem is the extreme weakness of the Georgian state. Like Taliban Afghanistan, Georgia does not yet actually control and garrison all of its national territories.

I might briefly make a very quick policy proposal in connection with the Pankisi Gorge. The people who are committing crimes, kidnappings and so forth there, potential Chechen fighters, if not current ones, are no more than about 2,000 young people or 1,000 young men. It strikes me that we and the Georgian Republic have been very agitated about this problem in a way that goes beyond the scale of the problem itself.

We have given billions of dollars in foreign aid. We have been quite generous to Georgia and to Armenia. Is it beyond what we can do to train these young people as construction engineers or doctors or computer programmers or some trade that one cannot follow in the Pankisi Gorge? That would solve a problem that recurs again and again and creates continuous worry.

Let me make some very brief remarks about the Nagorno-Karabakh peace process. And there is more about it in my prepared statement. I won't talk about the specific terms which are agreed on between Azerbaijan and Armenia and the secessionist authorities in Nagorno-Karabakh or those which are disagreed, because there has been an agreement not to make those issues public—and I think a useful agreement.

I will talk some about why negotiations have gone along for so long with a lot of good will and real interest in a settlement on both sides without a settlement.

First, ethnic conflicts are more difficult to resolve than other conflicts. They stir emotions and have a historic resonance in a way that most conflicts do not. But second, this is a conflict with a lot of parties, not only the three countries and entities that I named, but also Russia, which has a close relationship with Armenia and is trying to become closer to Azerbaijan.

The United States and France—those are the three cochairmen of the Minsk Group negotiation—Turkey and Iran also have a considerable role in facilitating or blocking a solution. Russia, at var-

ious times, has not been helpful. It is—has become more helpful in the peace process, but there certainly was no agreement after the Key West Summit.

We think of the United States as the purest of mediators. And I think it is an honor we have as a country that, in fact, we really do care about conflict resolution for its own sake. It needs to be emphasized, though, that that is not the position of either of the parties, that our very disinterested concern for peacemaking in itself prevents us from taking totally seriously the interests of the parties, which are much more complicated. We tend not to think about this inconvenient fact, which is part of American optimism—I think a great virtue. At the time of the Key West Summit, I was very struck that there was more optimism in the State Department than among most of the parties, particularly Azerbaijan.

I think it is worth renewed efforts of this kind. The Bush Administration is to be congratulated on having made a major push for peace in the Nagorno-Karabakh very early on, but only when both parties signal their readiness, restless activity as in the Middle Eastern peace process can be a danger. I, therefore, am rather pessimistic. Unfortunately, post-communist ethnic conflict seem to me have a logic that when the fighting dies down, there is little desire to renew it; but there never is an agreement unless it is reached by armed force, as in Kosovo and Bosnia.

I think it is a test for future American policy to harness that inherent logic of post-communist ethnic conflict to the peace process. Thank you.

Mr. GILMAN. Thank you very much, Dr. Fairbanks.

[The prepared statement of Mr. Fairbanks follows:]

PREPARED STATEMENT OF CHARLES H. FAIRBANKS, PH.D., DIRECTOR, CENTRAL ASIA-CAUCASUS INSTITUTE, SCHOOL OF ADVANCED INTERNATIONAL STUDIES, JOHNS HOPKINS UNIVERSITY

It is strange to be testifying on the Caucasus at a time when almost all American attention is understandably devoted to fighting international terrorism, with its initial geographical focus on Afghanistan. On further reflection, however, the topic of today's hearings has a real relationship to the war we are presently fighting. Afghanistan became a base for international terrorism for a number of reasons. The first, of course, is the existence of a network of international terrorist groups. But these groups could not operate so freely on without the existence of entities as strange as Taliban Afghanistan. Taliban Afghanistan is not a state in the sense of modern international law, which defines a state in terms of "sovereignty" over an entire territory, with precise borders, and a monopoly of armed force within those borders. The multinational military units dubiously called "Mujahidin," or fighters in holy war, including those controlled or influenced by Osama bin Ladin, limit Taliban's sovereignty. In fact Taliban Afghanistan seems to need these units, because they have no regular army with professional officers and a regular, legal procedure for calling up citizens to serve. Instead, youths are being grabbed on the streets and forced into army units. In a language which is not really adequate to the phenomenon we are describing, we could call Taliban Afghanistan a "weak state," a "failing state" or a "failed state." Weak or failed states are potential homes for terrorism. It seems to me that public discussion of the goals of our foreign policy has been far too concerned with strong states that might be rivals, and not enough concerned with dangers that arise from weakness.

Weak states are frequently weakened by unresolved conflicts. The Taliban government of Afghanistan has turned out to be so bad that the interest of some Americans in giving it diplomatic recognition or Afghanistan's UN seat were obviously foolish. But even in Afghanistan, the existence of an unresolved struggle for control of the country has tremendously weakened and slowed the international pressures that act to normalize states—to accept international norms of behaviour outside,

control their territory, take responsibility for what happens on it, and expel criminals and terrorists.

Finally, I would assert that terrorist groups like those of Osama bin Ladin could not operate without state support from powerful, competent states. In situations of unresolved conflict or semi-statehood, as in Afghanistan, these states can manoeuvre freely and deniably. Frequently such states operate not to strengthen statehood in borderline cases, but to destabilize and undermine it.

The Caucasus, particularly the mountain areas that straddle the North and South Caucasus, are a potential Afghanistan, with all its consequences for us. International terrorism directed against the United States has never appeared there, but there are many ruthless and lawless acts against local governments and private citizens that show its potential. There are many weak states, which do not control their entire territory. Georgia's Pankisi Gorge, actually a valley, is an example of the weakness of the Georgian state. Although Zeyno Baran is discussing this problem as well, I will talk about it at somewhat greater length, because I am one of the very few Americans to have actually visited the Pankisi Gorge (in August 2000).

THE PANKISI GORGE: EXCUSE FOR DISRUPTING GEORGIA

The best-known concentration of Chechens in Georgia is the "Pankisi Gorge," the upper valley of the Alazani river in the Eastern province of Kakheti. Both Russian and Georgian papers are full of lurid stories about the role of the gorge in the current Chechen war. Before I went to the valley, a Russian official statement spoke of 700 Taliban fighters who were conducting Chechen fighters to the front. In August 2000 I travelled to the Pankisi gorge in order to establish the truth. I also consulted humanitarian aid workers, officials of the Georgian government, Chechens in Tbilisi (including their known "official" representation) and a team of anthropologists who have been studying the social problems of the gorge for two years.

Some 150 years ago a small group of Chechens began settling in the valley. The Chechen-speaking people are known to the Georgians as "Kisty." They also speak Georgian and have names with Georgian endings, instantly recognizable as Kist to an ethnic Georgian.

The overthrow of Zviad Gamsakhurdia, the first President of independentGeorgia, and the near-collapse of the Georgian state brought economic crisis to Georgia. In 1992–94 many Kisty left for Grozny in Chechnya. With the arrival in power of the secessionist President Dzokhar Dudaev, in the fall of 1991, Chechnya had become a lawless "free port" through which much Russian business was channelled. The business opportunities in Grozny were apparently so attractive that many Kisty sold their houses in the Alazani gorge and became Russian or Chechen citizens. Given the general atmosphere in Grozny under Dudaev, we should assume that they became familiar, or more familiar, with free-wheeling, illegal business.

When the Russian-Chechen war broke out in the late fall of 1994, many of the Kisty in Grozny left Chechnya by way of Georgia. Some returned to the Pankisi Gorge. On the basis of my interviews, some returned again to Chechnya when the first war ended in August 1999. In the fall of 2000 war broke out again, and several thousand Kisty and some other Chechens made their way across the Georgian border. They came *not by mountain paths but by motor vehicles along the nearly completed Itum Kale-Shatili road joing Georgia and Chechnya.* In December 2000 another wave of refugees (1,000–1,200 according the local UNHCR chief Hassan Khan) were flown by helicopter from Shatili to the Pankisi gorge. The refugees asked, according to anthropologists, to go to the Turkish border, where there are many opportunities for work. Instead, the Georgian government directed them to the Pankisi valley. After January 2000, according to the UNHCR, almost no one arrived. But, given the absence of the Georgian government in the valley, and the nervousness of the relief organizations, it is entirely possible for individuals to come and go without being noticed.

According to the UNHCR office in Tbilisi, 80–85% of the Chechen refugees are living with host families (local Kisty), 15–20%, mostly women and children, in "collective centers", mostly schools and abandoned public buildings. After years of neglect, conditions there, as in other such Georgian refugee sites, are bad. On the other hand, the host families have been very generous with their scant resources.

In October 1999, when Chechen refugees began entering Georgia, international relief organizations moved in. The relief organizations provided food (from November), water, sanitation, warm clothing, and minimal health care, by a referral system.The result was an economic boom in this impoverished area of northern Kakheti, as refugees sold supplies they didn't need. (International relief aid is often inappropriate to the specific circumstances.)

Relief organizations helped the Georgian government increase its presence slightly. The Ministry of Refugees opened an office in Akhmeta with some donated equipment. Nevertheless, when I visited the Gorge, there was *no presence of the Georgian government in the valley*. Police occupied a roadblock on the one incredibly potholed road into the valley, but did not go within the valley. The *Gamghebeli*, or local Georgian authority, had died and had not been replaced. It became apparent during a meeting of humanitarian organizations working in the area that the valley's residents, both locals and refugees, look to the relief agencies to supply the functions of government. Some steps have been taken to establish a Georgian govbernment presence in the Pankisi Gorge since I visited there, but the Pankisi valley remains onlyt tenously connected with Georgia.

The question of refugee education is particularly important, given that a new generation is growing up while the brutal Chechnya war lingers on. The Chechen school system was a shambles before the war; neither teachers in Chechnya nor Kist teachers in the Pankisi valley had been paid in a long time. Manana Gabeshvili, a Georgian psychologist working with the refugees, said that refugee children under nine or ten do not know Russian. The humanitarian organizations waited for government reaction. Eventually the Georgian government said that refugee students could have Russian and Chechen textbooks. The curriculum of the Maskhadov government in Chechnya is maintained. Teachers are refugee volunteers. When international help for refugee education was bothering the local population, for whom nothing had been done by anyone, money was given to the Georgian ministry of education to renovate five schools. I visited one of these schools in the village of Duisi, which was being restored to a condition rare in Georgia. Higher education remains a problem. The refugees, like most people in rural Georgia, feel excluded from Tbilisi's prestigious institutions. Only the Kisty know Georgian, the language of instruction there. To enter the prestigious faculties, such as medicine and law, requires bribes of $10–20,000, which few refugees could muster.

THE PANKISI GORGE PROBLEM: A POLICY PROPOSAL

As in Chechnya itself, Pankisi's younger generation, growing up without employment and without education, is the source of rebelliousness, insecurity and crime. Let me use the opportunity of this committee hearing to make a modest policy proposal, one that would substatnially diminish Georgia's exposure to Russian threats and destabilization, and Georgia's salience as a bone of contention between Russia and the United States. With our billions of dollars of foreign aid, and the additional billions that will be appropriated to deal with the root causes of terrorism, is it beyond our abilities to give about two thousand Chechen-refugee and Kist young people something to look forward to in life? Something beyond the successful drug deals, smuggling, and perhaps a few intervals of fighting in the guerrilla war against Russia that they now anticipate? Why can't we turn these two thousand young people into construction engineers, trauma doctors, Chechen philologists, or computer programmers? If there is ever any stability and economic development in Chechnya, it will need those skills. If not, Georgia will need them. At worst, people who have such skills do not hang around unemployed in a remote mountain glade; they will go to the great cities of the developed world, solving the Pankisi Gorge problem.

I can discern two major systemic factors that have prevented such a simple solution. One is the chronic inability of the US government to focus on small, discrete problems that catalyze major foreign-policy headaches. In the whole US government, with its millions of employees and immense budget, there are probably nine or ten people who work full-time or even part-time on the problem of Chechnya, with all the potential for future terrorism it holds. No one works specifically on the Pankisi Valley. Instead, US government employees are instructed never to go there. The trouble this issue is causing Georgia, and the United States which cares deeply about Georgia's independence and success, is utterly disproportionate to the scale of the problem itself.

The second systemic problem is, it seems to me, the humanitarian organizations' traditional conception of their missions. These organizations, from the UN High Commission for Refugees to Medecins sans Frontieres, receive and use the money generously appropriated by the United States and other caring countries for Chechen refugees. They have done a vast amount of good in the world. But they did it by defining their mission in a narrow way: for instance, by not taking sides in political disputes. Humanitarian organizations rightly pride themselves on not solving the whole problem, but only specific aspects of it. When asked why donors for the Pankisi valley do not consider a program like the one sketched above, the humanitarian relief workers say that their policy is always not to benefit refugees

so much that they are tempted not to return. In most cases this is probably good policy, although the percentage of refugees who do return after long wars averages 25%.

But there is another way of seeing the problem of the Pankisi Gorge in the context of the intractable animosity between the Russian government and the Chechen population, and the brutal war without end provoked by that animosity. One could see the few thousand Chechen refugees in the Pankisi valley as not only a *problem*, but as a *resource* for solving the larger Chechen problem. These refugees are the only large group of Chechens living compactly outside the zone where military operations, refugee camps and security sweeps make normal life, a normal economy and normal education impossible. They are the only group of Chechens that the international community, with its less biased and emotional view of the conflict and its greater financial resources, can freely affect.

Islam in the Pankisi Gorge. Anthropologists studying the area paid special attention to religion, and it is from them that I derived my information. The Kist population which was there long ago had folk religious practices combining Islam, Christianity and paganism. They considered themselves Muslims, however. As in many Muslim areas, Sufism provided the means by which pagan and Christian practices were accommodated within Islam. When the Kisty went to Chechnya in 1991–94, they encountered the many-faceted revival of interest in Islam going on there. As a result, the valley is now in religious ferment. New Mosques have been built, or converted from abandoned Christian churches, in several valleys. There are now "Wahhabis," as in Chechnya and Daghestan. They number, according to Lia Mellikishvili, 50–100, mainly Chechen refugees proper. I did not talk with any Wahhabis while in the valley. Wahhabis wear beards, Daghestani-style skullcaps, and other details of clothing different from their Muslim neighbors. This is a strict kind of Islam, with no visits to (formerly pagan) shrines, seclusion of women, avoiding the cinema. This is precisely the ideological trend in Islam that tends to reinforce the hatred of America of Osama ben Laden and other Muslim extremists. But Pankisi's "Wahhabism" breaks with most Muslim tradition, and particularly with Chechen culture, in not reverencing elders. As a consequence, there is an acute sense of generational conflict. The version of "Wahhabism" spread in the Caucasus, like Osama bin Laden's, allows other Muslims to be considered polytheists, who can be robbed and killed. While this conception of Jihad has not been implemented by the valley's Wahhabis, relations are extremely tense. Contrary to most Muslim practice, the Wahhabis are building their own Mosque in the large village of Duisi. In turn they are excluded from the mosques of the ordinary Muslims. It is said that they are paid $100 a month "from the Saudis" to become Wahhabis. They have also been given arms by their co-religionists. Many refugees prefer the aid given by the "Wahhabi" charity "Djamaat" to that of the more established humanitarian assistance organizations.

There is indeed a general sense of tension in the valley. The humanitarian organizations tell people not to spend the night there. People stare suspiciously at you, although they will talk in a friendly way if approached. The general belief is that strangers are Russian spies, who might at any moment call in an air strike on their village. Lia Mellikishvili, the anthropologist who has worked longest in the valley, was kidnapped by Chechen refugees who accused her of bieng an FSB agent; she talked her way oout of it. An Italian journalist who had allegedly discovered the use of chemical weapons in Chechnya was in fact recently killed on the lonely Gombori road, which I took to Tbilisi. Fear of Russian spies, absurd in general, illustrates the extreme provincialism of the Pankisi Valley community and the inflammatory effect of Russian government exaggerations about what is going on there.

The Pankisi Valley is also a high crime area. Chechens, Kisty and Georgians alike say that "all night people are stealing cows, chickens, things like that. . . ." The narcotics trade does use the valley; Kisty blame it on the Georgian police outside the valley. The province of Kakheti, which is on the road used by Turkish truckers from Central Asia to Europe, has a reputation for drugs. In spite of the refugees' destitution, one can observe the signs of money in the Pankisi Gorge. There are quite a few late-model motorcycles and SUVs on the crumbling roads. More serious is kidnapping for ransom. The day after I left the valley, some ICRC workers I knew there were kidnapped and held for two weeks. There have been earlier and later kidnappings as well.

Chechen fighters in the Pankisi Gorge? In 2000, neither aid workers nor anthropologists knew of any combat-worthy *boeviki* in the valley, as claimed by the Russian government and media. The refugees I talked to agreed. People spoke of a few fighters convalescing from wounds. No one has ever seen one of the hundreds of Taliban fighters repeatedly spoken of in semi-official Russian media sources.

While there are persistant reports of hundreds of Chechen fighters in the Pankisi Gorge, they need to be tested by the basic economic or market logic that applies to most human affirs. Chechen commanders or individual fighters will employ those rear bases and transit routes that are less dangerous and have more facilities. Rebel activity will move where it is cheaper and less dangerous. For routes, carrying capacity and speed of transit are vital considerations. These are the same considerations that resulted in the supersession of human and animal portage by motor vehicles in almost all economic niches. I believe that most traffic between Chechnya and Georgia travels on the Itum Kale-Barisakho road that crosses the mountainous Chechen-Georgian border. There are Russian and Georgian border guards, toghether with the OSCE monitors usefully added, to stop Chechen military traffic. If Chechen fighters still pass, it is with the assistance of bribery. The Georgian government seems to be conscientiously trying to stop traffic, but in an economic crisis of such depth nothing can negate the power of money. The same is true on the Russian side. Assuming, for example, that to bribe you way through two border posts costs $2000, a figure I was told by informants in the first Chechen war, the question becomes whether that amount of scarce cash is better spent on pack animals, rations that diminish a convoy's useful load, and shelter to move slowly over the distance separating the Pankisi Valley and the border.

Rusian charges run up against a fundamental fact of geography. The Pankisi valley is separated from the Chechen border by about sixty kilometers (some 36 miles) of rugged, almost uninhabited mountains. At no time in history, probably, was the population of the Khevsureti province greater than the low thousands. There is nothing to live on, even in the valleys, except the dairy produce of sheep grazing the mountain pastures, in summer only, and wild game. There are ruined hamlets to shelter in, but no modern infrastructure except for the very indirect Barisakho-Shatili-Mutso and Pshaveli-Omalo roads (ending near the Dagestan, not Chechnya, border), together with their bridges. Small groups of men accustomed to riding horseback could move back and forth through this country in three or four days, but will then confront the primitive, undeveloped Pankisi Valley.

Consider the alternatives. Using the secret weapon of bribery, one can use a motor vehicle on the the Itum Kale-Barisakho road. Half a day's drive brings you to the huge modern city of Tbilisi, with its big-city facilities and anonymity. A further three hours would bring you to the Pankisi Valley. But there is the alternative of the major international routes through Daghestan to Baku, with its tens of thousands of Chechens, or by Abkhazia, Ukraine or Moscow to Turkey, with its millionfold North Caucasian diaspora. The Chechen population within Russia itself, in Ingushetia, Northern Chechnya or Moscow provides, if facilitated by bribery, a richer and more accessible rear base than any of these foreign alternatives.

Russian claims of a major Chechen rear base in the Pankisi valley are, on the basis of what I saw and heard in 2000 or of basic geography, tremendously exaggerated. The government of Georgia has been at fault in not pointing out these basic facts to the international community. It is, however, even more puzzling that the US government has apparently believed many of these Russian claims. During President Shevardnadze's visit, which just concluded, he was, if rumors are correct, sharply criticized for Chechen military activity in Georgia. It is possible that there is intelligence of which I am unaware, but our intelligence sharing with Russia makes disinformation very easy. The tiny number of American intelligence analysts, crippled by travel restrictions, are hardly in a good position to evaluate such intelligence. It is quite possible that our government is crediting propaganda whose ultimate purpose is to disrupt and evict our own presence in the South Caucasus.

Eldar, a Kist who had moved back and forth twice to Grozny, told me that "We have our own *spetsnaz*, armed with machine guns, grenades, and RPGs, brought from Tbilisi," just as the "Afghan Arabs" maintain in Taliban Afghanistan groups of fighters that the Taliban do not control. The alleged purpose of this informal militia is to deal with theft and the drug trade. Thus there are fighters who might fight under different circumstances. In conversations in Duisi I learned that that the local Kisty do not, like some other minorities, feel that they are Georgians. The Pankisi valley is not part of Georgia in any real sense. Seemingly, the Georgian government does not see this as a problem. Although there were no armed forces of the Georgian government in the Pankisi Gorge when I was there, I was stopped by some fifteen Georgian policemen, in five separate groups, on the roads going to and from Pankisi. They were there to shake down motorists for fictitious motoring violations, a common practice throughout the former Soviet Union. (Similar problems exist in Armenia, Azerbaijan and the Russian North Caucasus.) This amazing fact lays bare Georgia's problems at their deepest level. Because the Georgian state is too weak to raise adequate revenue, it cannot pay its armed forces a living wage. Instead it gives the police the right to support themselves by preying on the public, in the medieval feu-

dal style. It is a vicious circle: because the officials who have privatized state functions, such as traffic enforcement, do not give the proceeds to the Georgian treasury, the government cannot pay normal wages. The desperate employees of the state must therefore free-lance instead of doing their official duties—starting the vicious circle again.

Thus there is a problem beyond Chechen military presence, whatever it may be, and the connected Russian threats. *This problem is the incompleteness or weakness of Georgian statehood.* Another way of speaking of thiis weakness would be to talk about the *feudal* character of the Georgian, and other newly independent, states. Georgia would not be as vbulnerable to the very real Russian efforts to destabilize it if the Georgian state were not so weak. This is not a reproach to Georgians, because they have been independent for only a decade, but neither Georgians nor concerned Americans have focused sufficiently on it. The United States and its Congress have been very generous in aiding Georgia and Armenia. I wonder, however, whether all of our aid programs have been constructed with this problem in clear view.

Are there any legislative enactments which might address this problem more frontally than we have hitherto done? To ask this is to open up a larger topic than can be treated in testimony. But I wll hazard two simple suggestions. First, any American aid to specific governmental units in the Caucasus should specify that the personnel of that unit be paid high salaries by South Caucasian standards, to remove the temptation for corruption. Of course, such aid is only possible in a few elite government bodies. This is just as well—Georgia and some other Caucasian states have too many underpaid policemen and soldiers. In the past the United States has avoided paying for foreign government salaries, but to do this is to bypass the core of the problem. Funding an elite military unit—a company of some 100 men would probably be enough—to garrison the Pankisi Gorge would be a good starting point in strengthening the Georgian state. Second, US aid in general has too many preconditions and tests. But one requirement that would be very useful is to require that local officials in bureaucracies helped by us not receive income from any outside, non-governmental source. If such a requirement could be enforced in a few vital cases, it would stop the feudalizing process at its very roots.

THE DESTABILIZING ROLE OF UNRESOLVED CONFLICTS

The foregoing discussion showed an example of how the unresolved war over the status of Chechnya weakens the neighboring Georgian state. The unresolved Abkhaz and South Ossetian ethnic conflicts also weaken Georgen statehood, while the continuing impasse over Nagorno-Karabakh weakens Azerbaijan and Armenia by isolating thm, impeding economic development, and inviting Russian meddling. I will end with some remarks about the latter peace process, which is of special concern to Americans.

CONCLUSIONS

The picture of the Caucasus given above may seem rather gloomy. I have not described the most positive factors, such as the real democratic forces spreading from the civil societies into formerly authoritarian governments, the dominant orientation toward the United States and Europe, and the yearning of the population everywhere for normalcy. I was not asked to deal with these issues. But I should note, in ending, that I have described the Caucasus without a great force for change that has just started to work. This is the vast mobilization of the United States, people and government alike, to deal with international terrorism. Our war effort may take one of two paths. Our determination to win the war against terrorism may culminate in a focussed campaign against the network headed by Osama bin Laden. Having crippled that network, as the President has vowed to do, we may simply return to our earlier business. It is true, however, that terrorism has "underlying causes," although it is simplistic to confine them to poverty and injustice; they include problems such as the weakening of the state that follows the decay of formerly communist governments. If we choose this short term, narrow approach, the same set of underlying conditions that exists now will produce a new crisis like this—perhaps of terrorism, perhaps in the Caucasus.

There is a second course we could take after military operations are finished. We may realize that, without seeking any particular status in the world, we have become a court of last resort for dealing with dangers and disorders evaded by every other country. Every country suffers from terrorism—when it hits them. No one else, however, has the power, the recent tradition of leadership, and the imagination to lead an international campaign against terrorism. With this inevitable, though uncomfortable, position of world leadership, there arise extreme dangers to us. Any-

one in the world who feels bitter rage against what they are experiencing, no matter what its immediate source, is likely to blame America. The openness of American life, the explosive growth of technology, economic globalization and its concomittant flood of international migration, working together open up tremendous vulnerabilities to attack. The destruction of the World Trade Center, sudden as science fiction, exposes our naked condition. Better "homeland security," necessary as it is, will never armor us sufficiently against the resentments our world leadership evokes. We will need a more energetic focus on the interlinked reality of fanatic non-state groups, sponsoring states, weak states providing havens for terrorist activity, strong-state destabilization of such areas, ignorance, and poverty. If the World Trade Center-Pentagon atrocities do produce such a policy response, the United States will bring new energy and commitment to the problems of a disorderly Caucasus.

Mr. GILMAN. We will next hear from Dr. Brenda Shaffer, who is the Director of the Caspian Studies Program and a post-doctoral fellow in the international security program at the Belfort Center for Science and International Affairs at Harvard's Kennedy School of Government.

Dr. Shaffer received her Ph.D. From Tel Aviv University for her work on "The Formation of Azerbaijani Collective Identity in Light of the Islamic Revolution in Iran and the Soviet Breakup." that is quite a title. Dr. Shaffer's op eds have appeared also in the International Herald Tribune and the Boston Globe. She is the author of a book, *Partners in Need: Russia and Iran's Strategic Relationship*, the Washington Institute for Near East Policy; and a book on contemporary Azerbaijani history and identity by MIT Press, September, 2001.

Dr. Shaffer is currently working on a book on culture and foreign policy, Islam and the Caspian. She has traveled extensively throughout Central Asia, Caucasus and Turkey.

Dr. Shaffer, you may put your full statement in the record and summarize, whichever you may deem appropriate.

STATEMENT OF BRENDA SHAFFER, PH.D., RESEARCH DIRECTOR, CASPIAN STUDIES PROGRAM, KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

Ms. SHAFFER. Mr. Chairman and Members of the Committee, I am quite honored that I was asked to testify here, and I am very happy that this Committee is looking comprehensively at the U.S. policy in the Caucasus and the Caspian region.

As a citizen of this country, I am also quite moved that business is continuing as usual and we are looking at larger issues and not just policy issues related to the September 11 tragic events, but looking at our long-term actions and policies in many places. And I think, through continuing on with business as usual, we are projecting an important message that our lives do not have to stop because of these tragic events. My points now will summarize my written statement and will also be based on a number of recent trips that I have had to Azerbaijan, Armenia, Georgia, also including a visit to Nagorno-Karabakh.

Mr. GILMAN. And we will put your full statement in the record without objection.

Ms. SHAFFER. We generally—when we discuss the Caucasus and Caspian region, we generally discuss it in terms of oil and gas; that has been the focus of a lot of our discussions. And, true, the Caspian region has copious quantities of oil, evidently equal to the

North Sea. The importance of these resources is not in their quantity but where they are located in the political orientations of these regimes.

These countries are not members of OPEC. By having sources outside the OPEC cartel, this contributes to diversity of sources and thus to world energy security. Also this can put pressure on OPEC to not use the oil weapon to change policies and in terms of their pricing control if we have diversity of sources.

But the importance of the Caspian region is way beyond oil and gas. To understand the importance of relations with the actual area it is essential to view U.S. relations with the Muslim world. With the Soviet breakup and the establishment of six states in the Caspian region—predominantly they have Muslim populations but with clear separation of church and state, modern education and with a very pro-Western orientation—a strong opportunity was created for the U.S. to improve its relations with the Muslim world. Not only could the U.S. improve its relations, but by strengthening ties to these states which border on the Middle East and share coethnics with neighboring states in the Middle East, the U.S. had the opportunity to strengthen trends of democratization, secularization and modern education and technology in these neighboring states.

Most important is the neighboring state of Iran. Iran, we often refer to as a misnomer of Persia. It is actually a multiethnic state in which 50 percent, half of its population, is non-Persian, the largest minority being the Azerbaijani minority, approximately a third of the population of Iran.

If we can strengthen trends of democratization, separation of church and state and pro-Western orientations of the states of the Caspian region, these trends can be further developed in the neighboring Middle Eastern states. Already we are seeing, through direct trade and education, relations that are developing between Azerbaijanis in the Republic of Azerbaijan and those in the northwest provincial Azerbaijani provinces in the state of Iran. We are already seeing strengthening of these trends of openness in those bordering regions.

Thus, the importance of these countries of the Caspian states and especially the Republic of Azerbaijan is way beyond oil and gas, but truly the U.S. relations with this part of the Muslim world and maybe greater trends in the Muslim world.

Coalitions are quite interesting in the Caucasus region and Central Asia. The U.S. policymakers often look at the region and assume that the Muslim states would be aligned with other Muslim states, the Christian states would have more pro-Western orientation. But actually the states that have been most ardent in extending their hand to the U.S. have actually been the states where the majority of their populations are Muslim. And in no way has the religious identity of the citizens affected their policy or any of the orientations.

For instance, the Islamic Republic of Iran has very problematic relations with Azerbaijan, mainly due to the presence of the Azerbaijani minority in Iran. Tehran fears that a strong and attractive Azerbaijan could be a source of attraction for its own minority. And yet the Islamic Republic of Iran has very strong close relations

with Christian Armenia, meaning that religion does not in any sense serve as the basis of the coalitions in these regions.

Problems definitely exist in democratization and the rule of law in the Caucasus. We must look at the overall trends. Successful democratization is a long-term process, it doesn't happen within a month or two.

And if we look at where we were a decade ago in the Soviet breakup in terms of the rule of law, in terms of democratization and where are we today, how many more newspapers have appeared? How many more institutions of open society have been put in place in these countries: Internet access, openness, travel? We must look at the trend as positive.

And often, the U.S. has stood on the side as a critic and not enough looking at the overall positive trends that have taken place. I believe we have placed too much emphasis on election monitoring, because it is measurable, versus the overall, long-term development of democratization and mainly through putting in institutions of open society in place.

The U.S. has projected a very inconsistent policy toward the Caucasus region. Members of the Administration, previous and present, come to Committees, honorable Committees like your own, and tell that Azerbaijan is a cornerstone of the U.S. policy, is an important country to the U.S. Yet, at the same time, the U.S. Congress has put sanctions on the state—the Republic of Azerbaijan through section 907 of the Freedom Support Act. I can't imagine that we maybe, in a situation at this time where we would remove sanctions from Pakistan, have a very long debate whether the U.S. should have sanctions on Iran, but yet with hardly any debate, we impose sanctions on the Republic of Azerbaijan.

This country did not become a friend of the U.S. in the last couple of weeks. For the past 10 years, this country has been cooperative with the U.S. on nonproliferation issues and on prevention of terrorism, way before it became popular.

We forget how U.S. sanctions are perceived. It is just not a matter of money or a few million dollars in one direction or another, or a meeting or some sort of military exercise; but being under U.S. sanctions firmly hurts the people of the Republic of Azerbaijan. They have strong identification with the U.S. They have extended their hand to the U.S. They have huge expectations that the policy of this country is based on some sort of morality and high ideals. And to be under sanction is something that they feel is very critical.

It is hard for them to understand when 20 percent of their country is under occupation and 800,000 refugees were created by the war in the Nagorno-Karabakh, why their country is under U.S. sanctions.

While I recognize the right of Armenian-American citizens to pursue the interests of countries abroad that they identify with—and I think that that is just and legitimate—I believe that U.S. Congressmen have to balance these sectorial interests with U.S. national interests, and one way to do that is to cancel section 907.

I believe the U.S. should have strong ties also to Armenia and should give strong assistance to Armenia. But 907 does not help Armenia. It only hurts Armenia's neighbor and it only hurts Azer-

baijani relations with the U.S. which, if those relations were better, would also be in Armenia's interest. Also section 907 hurts the U.S.'s ability to be an honest broker in the Nagorno-Karabakh peace process, a peace process that will benefit both Armenia and Azerbaijan.

As a final message, in the last couple of weeks, many Americans have been looking at themselves and saying, How did these tragic events happen to us? What did we do? What is it about our policies? Is it our support for Israel? Is it what we did in Kuwait? And I think the message has to be the opposite.

People all over—as the Chairman said in the beginning, people all over are taking a ride on these issues. These tragic events did not happen because of a certain policy. And not every people who suffers injustice has to use violence and terrorism to express that sense of injustice or remedy their issues. I learned this lesson from the Azerbaijani refugees, 800,000 refugees, Muslim refugees created by a conflict with the neighboring state, sitting in refugee camps, for close to a decade under U.S. sanctions, yet no expressions of anti-American sentiments among these people. No expressions of violence to call attention to their issue. No expressions of terror or support for terror, but actually waiting with high expectations from the U.S. that they will remove sanctions on their country and continue to contribute to the Nagorno-Karabakh peace process.

Thank you.

Mr. GILMAN. Thank you very much, Dr. Shaffer.

[The prepared statement of Ms. Shaffer follows:]

PREPARED STATEMENT OF BRENDA SHAFFER, PH.D., RESEARCH DIRECTOR, CASPIAN STUDIES PROGRAM, KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

With the independence in 1991 of the three states of the South Caucasus—the Republics of Azerbaijan, Georgia and Armenia—and the new states in the greater Caspian region, tremendous opportunities were created for the U.S. to promote its national interests in the Caucasus and greater Caspian region. Azerbaijan, Georgia and Uzbekistan each demonstrate strongly pro-American political orientations and ardent desires to be linked to U.S. led activities in the area. Kazakhstan strives for good, cooperative relations with the U.S. Turkmenistan also seeks cooperation with Washington, while balancing its relations with other regional powers. While Armenia's foreign policy is not as strongly U.S.-oriented, Yerevan possesses strong links to the U.S. through the Armenian American community and is one of the highest recipients per capita of U.S. foreign aid.

Policy discussions relating to the Caucasus and Caspian region have tended to focus on the oil and gas resources of the region and associated pipeline issues, and on the contribution that the region can make to energy security. However, the importance of the Caspian region for the U.S. extends far beyond energy; extensive and positive ties with the states of the region, most of which are populated by Muslims, can contribute to building important ties in the Muslim world and encourage the development of U.S.-oriented regimes and open societies there.

Since taking office, the Bush Administration has demonstrated interest in the Caspian region and recognized it as an important arena for pursuing U.S. national interests. Secretary of State Colin Powell's hosting of the Key West peace summit in April 2001 on Nagorno-Karabagh; President Bush's statements on the importance of diverse energy supplies; and the recommendations on Caspian issues in the report of the National Energy Policy Development Group led by Vice-President Cheney are all positive examples of the Bush Administration's approach.

My statement before this committee focuses on U.S. national interests in the Caucasus and greater Caspian region; provides an assessment of the political situation in the region; offers an evaluation of U.S. policy toward the Caucasus and Caspian region; and includes recommendations on how to improve those policies in order to best promote U.S. national interests in the region.

THE CASPIAN REGION: ADVANCEMENT OF U.S. NATIONAL INTERESTS

A number of U.S. national interests can be advanced through successful articulation and implementation of policies in the Caucasus and greater Caspian region. The Caspian region is understood to encompass the Caspian littoral states of Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan as well as neighboring states that belong to the security and energy transport picture of the sea basin: Georgia, Armenia, Turkey, and Uzbekistan. U.S. national interests in the region include:

- *Ensuring the viability and stability of global energy supplies and diversification of supply areas other than the Persian Gulf.* Caspian discoveries are at least equal to and may prove larger than those in the North Sea. The Caspian's resources are located in countries possessing predominately pro-Western orientations that are not currently members of OPEC. The addition of Caspian oil could weaken the OPEC monopoly, providing greater leverage over the pricing policies of Saudi Arabia and other OPEC countries, and ultimately contributing to lower world oil prices.
- *Improving relations with the Muslim world.* The United States has problematic relations with a large portion of the Muslim world, which the recent tragic events have further exacerbated. With the Soviet demise, a tremendous opportunity was created for the U.S.: the establishment of six new states whose majority population is Muslim, most of whom strive for close association with the West and increased cooperation with the U.S. Through strong relations with the Muslim states in the Caucasus and Central Asia, the U.S. can decisively signal that it is not interested in a conflict with the Muslim world as a whole. Moreover, through strengthening the independence of these Muslim states—many of which have made progress toward democratization and have a clear separation between religion and state—the U.S. might encourage these trends in the broader Muslim world.
- *Promoting trends in neighboring Middle East states that are conducive to U.S. national interests.* The Caspian region borders on the Middle East. Many of the states in the Caucasus and Caspian region share co-ethnics with neighboring states in the greater Middle East region. Events in the Caspian region can affect developments among co-ethnics in neighboring countries and overall trends in those countries, and these cross border ties can serve as a policy lever. For instance, large communities of Uzbeks are found in Afghanistan, and Iran is a multi-ethnic society in which half of its population is non-Persian. The Azerbaijanis are the largest ethnic minority in Iran, comprising between a fourth and a third of the population of the state, and events in the Caucasus have internal ramifications for Iran. Ethnic politics, especially among the Iranian Azerbaijanis, may play an important role in the unfolding regime crises in Iran, and may be affected by relations with co-ethnics abroad. In the last decade, direct trade and cultural relations between people in the new republics in the Caspian region and co-ethnics in neighboring states have become intensive and this interchange is affecting center-periphery relations and other developments in the neighboring states, especially Iran. Cross border exchanges are especially active between Azerbaijanis in the Republic of Azerbaijan and in Iran.
- *Promoting the well being of Turkey, an important U.S. ally, now in the midst of a financial crisis.* Ankara is trying to build influence in and derive economic benefit from cooperation with the Caspian region, especially in the energy sphere. Turkey's economy can profit from the transit of Caspian oil and gas through its territory, and from access to this energy source.
- *Promoting U.S. economic interests.* American companies and U.S.-based multinational companies have invested significant funds in the Caspian region, especially in the development of energy resources. Positive political relations with the states of the region provide important support for American investments and encourage the growth of these investments. U.S. legislation establishing the transparency and legality of U.S. companies' actions abroad serves as a good example for local states and also helps to promote these practices.
- *Promoting the independence of the states in the Caucasus and Central Asia; their successful democratization; and general peace, stability and prosperity in the region.* The emergence of a group of independent, democratic, and prosperous states with pro-American orientations would only serve to enhance U.S. security, removing potential future trouble spots that could embroil us.

CURRENT POLITICAL SITUATION IN THE CAUCASUS

One decade after their independence, all three states of the South Caucasus—Azerbaijan, Armenia and Georgia—are still in a process of building political institutions and political, social and economic transition. Rule of law is still weak in all three states, and *efforts should be focused on strengthening the professional functioning of the judicial systems.*

In my assessment of the political processes in the states of the region, I will concentrate on the Republic of Azerbaijan, which has been the focus of my research. Azerbaijan needs to make improvements in the field of democratization of its political system. Rule of law is still weak, journalists at times have been subject to attack, and the judicial system is at times arbitrary. However, *we must look at the overall trend of democratization in Azerbaijan to assess its success:* each year, significant improvements occur in the situation of democratization in Azerbaijan. Institutions of open society are clearly in place in Azerbaijan. Baku has a population of approximately two million people and at least five serious newspapers, many of different social and political orientations, are published there daily. I know of few American cities of that size that support such a large number of quality daily papers. We learn of human rights violations in the Republic of Azerbaijan from its own press, which is an important sign of democratization. The press in Azerbaijan is a spirited watchdog and conducts feisty investigative reporting of the government's actions, unparalleled in many western states. University classrooms in Azerbaijan have become venues of fierce open debate, and representatives of the government at times appear in academic conferences and conduct dialogue with the citizens. The state's universities are a central training ground for fostering democracy in society. However, beginning in spring 2001 the central government has created hardships and put pressure on some of the private universities in Azerbaijan, and this is to be viewed with concern.

Successful democratization is a long process and in the first decade since independence, Azerbaijan has taken important strides in its direction. *While improvements need to be made, the trend of democratization in Azerbaijan is positive and U.S. officials should focus on this affirmative direction of development.* The U.S. should act as a partner and friend in the democratization efforts in the Caucasus, and not chiefly as a sideline critic, and this will improve its contribution to this process.

Central to the development of the Caucasus and Caspian regions is resolution of the Nagorno-Karabagh conflict between Azerbaijan and Armenia. Today, important policy and development options are obstructed due to this conflict. As long as the borders, citizenship of residents and political organization of the region are not clear, it is difficult to implement long-term development and investment designs. The small states of the south Caucasus must deal with many great challenges, especially living with strong neighbors like Russia, Turkey and Iran. Open trade and cooperation between these three states is necessary in order to meet these challenges. The current status quo (no war, no peace) should not be considered a viable option in the Nagorno-Karabagh conflict: Thousands of Azerbaijanis are still displaced and living in deplorable conditions, and the economic hardships and political instability in Armenia, has led to emigration of a significant portion of the population of the small state, and these situations should be remedied.

I am confident that the Nagorno-Karabagh conflict is resolvable in the near future and commend the American efforts in the last year in this direction. Journalists and historians have often tried to convince us of the "ancient hatreds" associated with the people of the Caucasus that dictate the emergence of conflict in this region, and I fundamentally disagree with this approach. In many places around the world, diverse ethnic, tribal, regional, cultural and other groups live adjacent to each other and conflict does not necessarily emerge. The ethnic and religious diversity of the Caucasus did not lead to the conflicts that emerged there between Armenians and Azerbaijanis over Nagorno-Karabagh or in regions of Georgia, such as Abkhazia and Ossetia. Agendas of various political movements, polices to further interests of neighboring powers, problems associated with political transition, and rivalry between vying powers greatly contributed to the emergence of conflict in the Caucasus. Almost all bordering states posses a mutual history of wars, conflict, and shifting borders and populations, yet we do not conjure up that history in most current political contexts. However, when relating to the Caucasus, U.S. policy makers often repeatedly refer to the past negative interactions between the peoples of the Caucasus, as if conflict was predestined, while when assessing European and other governments, they rarely refer to the history of wars that took place between neighboring states there. After conflict has emerged, it is clear that it has an impact of its own and that the prevailing relations on the eve of the appearance of the conflict

cannot return with its resolution. However, to see conflict in the Caucasus as an almost predestined development is an error. An additional factor that leads me to believe that the Nagorno-Karabagh conflict can be resolved is the fact that interpersonal relations between Armenians and Azerbaijanis in the region have generally remained cordial and constructive despite the war. Moreover, violence against or between civilian targets has not appeared frequently since the 1994 ceasefire, and cooperation between Russia and the U.S. in the Caucasus has improved in the last year.

The crucial element of the resolution of the Nagorno-Karabagh conflict is the status of the *Shusha district*. The city of Shusha is strongly revered by both sides to the conflict, and its status is a central issue to the conflict somewhat like Jerusalem in the Israeli-Palestinian context. Without return of sovereignty over Shusha and of the Azerbaijani residents evicted from their homes there, it will be difficult to convince the Azerbaijani public to accept a peace compromise over Nagorno-Karabagh. Status of Shusha should be resolved early in the peace process, and this central issue should not be left to the end of the negotiations, in the manner of the Oslo Agreement.

PROMOTION OF U.S. NATIONAL INTERESTS IN THE CAUCASUS AND CASPIAN REGION

The population of the Caucasus and greater Caspian region possess a number of collective identities—ethnic, regional, state, family, religious and others. Religion is only one facet of identity in the Caspian region. Most of the states of the region are overwhelmingly secular, and religion need not serve as a divide between the U.S. and these countries, nor as the basis of most of the coalitions in the area. Overemphasis on the Muslim factor by American policymakers has led to erroneous assessments and poor policy choices over the last decade. For example, the U.S. mistakenly assumed that Russia would cooperate with Washington in restraining Iranian efforts to obtain nuclear weapons, due in part to Russian fears of Iranian—sponsored Islamist activities. Additionally, the U.S. failed to correctly read Iran's policies in the South Caucasus and Chechnya, wrongly assuming that Tehran would back Muslim actors, while in actuality Tehran did not back the Muslim Chechens or the Muslim Azerbaijanis but maintains extremely close and cooperative relations with Christian Armenia. The U.S. has often attached too much importance to religious identity, and often attaches religious motivations to various national movements: for instance, in Chechnya, the conflict was described as being between "Russian" soldiers and "Islamic" rebels. Accordingly, the U.S. should *place less emphasis on religious identity when assessing an actor's policy choices and as a basis for coalitions formed in the Caspian region.*

In many instances over the past decade, Washington failed to coordinate its disparate policies and consequently sent mixed signals to the Caspian region. For example, the Clinton Administration publicly declared the importance it attached to relations with the states of the region, especially Azerbaijan. Yet, in the sphere of concrete actions, the previous administration did little to waive or combat the sanctions imposed by Congress on Azerbaijan in the form of Section 907.[1] Baku is clearly oriented toward the U.S. and vigorously promotes U.S. policies in the region, such as in the fields of non-proliferation and prevention of terrorism; but at the same time, the country suffers under U.S. sanctions, a fact not lost on the Azerbaijani people at the grassroots level. Such contradictions create confusion and disappointment for the Caspian states, especially since there is little popular understanding of the dynamics of the U.S. foreign policy process, the role of Congress, and the influence of U.S. domestic constituencies on foreign policy. *Credible commitments are crucial in this region, as they are everywhere.* Mixed signals and the corresponding disappointment resulting from the lack of consistent support from the U.S. have led to the emergence of the first buds of anti-Americanism in Central Asia and the Caucasus. The U.S. must work to curb this development, and preserve its own credibility by following through with its commitments to these states and by conducting policies that are more consistent.

---

[1] Section 907 prohibits U.S. assistance (with the exception of humanitarian assistance and assistance for non-proliferation and disarmament programs) to the government of Azerbaijan under the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 (also known as the Freedom Support Act) "until the President determines, and so reports to the Congress, that the Government of Azerbaijan is taking demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh." The legislation imposes sanctions only on Azerbaijan, despite the fact that both Armenia and Azerbaijan waged a war over the territory of Nagorno-Karabagh.

RECOMMENDATIONS:

1. *Increase diplomatic efforts and encourage financial investment to promote the flow of Caspian energy resources along an East-West corridor (Baku-Tbilisi-Ceyhan).* In order for Caspian oil to make an effective contribution to diversification of energy sources, it must flow to world markets via multiple routes, including an east-west pipeline. The Baku-Tbilisi-Ceyhan pipeline will ensure that a large portion of Caspian oil flows through non-OPEC countries and countries that do not have competing interests (Russia and Iran both have extensive oil and gas supplies). The building of this pipeline serves a number of key U.S. strategic goals, foremost energy security, and it additionally promises to bolster the political independence of Caspian states. The U.S. government must continue to appreciate the fact that BTC is not solely a private economic project; there are geopolitical stakes involved as well.
2. *Promote the establishment of arrangements and infrastructures for the creation of regional gas supplies in the South Caucasus.* Significant new gas supplies have recently been discovered in the Caspian region, especially in Azerbaijan. With Azerbaijan's agreement, the U.S. should promote the construction and revitalization of pipelines for the utilization of some Caspian gas resources to supply the states in the South Caucasus, potentially as part of a Nagorno-Karabagh settlement package. The U.S. should also encourage the World Bank to devote resources to this project and to facilitate investment from other states. Use of local gas supplies can enhance regional security and stability by lessening the region's dependence on Iran and Russia for electricity and heating, eliminating a source of vulnerability to political dictates.
3. *Make a serious effort to conduct a consistent, clear, and coordinated policy in the Caucasus: cancellation or waiver of Section 907 of the Freedom Support Act.* In Congressional hearings, State Department and Administration representatives have referred to Azerbaijan as one of the "cornerstones of U.S. policy in the Caspian region," while, at the same time, the U.S. Congress enacted legislation that bars direct government assistance to Azerbaijan. One of the important ways to achieve consistency in policies directed toward the region would be for Congress to repeal Section 907 of the Freedom Support Act or for the Executive to seek changes in, waive, or circumvent this legislation as much as legally possible. Section 907 is prejudicial towards Azerbaijan—which for close to a decade has conducted a pro-American foreign policy—and projects an inconsistent U.S. policy toward the region. Moreover, if Azerbaijanis had the opportunity to participate in more U.S.-sponsored training programs and initiatives, the security of the region as a whole (including that of Armenia) would improve. The Republic of Armenia benefits little from the imposition of Section 907. This legislation may humiliate its neighbor and frustrate relations between the U.S. and Azerbaijan, but brings little concrete benefit to Yerevan. In addition, this legislation can impair Washington's ability to facilitate the Nagorno-Karabagh peace process since it imposes sanctions on one side of the conflict, and due to this legislation, Washington appears in the eyes of the Azerbaijani public to have a bias in favor of Armenia.
4. *Attempt to communicate clearly with Russia about U.S. policies in the region, explaining the target of certain measures (such as Iran), and clarifying that the exclusion of Russia is not the objective of American policies.* The U.S. is capable of crafting a comprehensive policy that keeps the Caspian region from becoming a zone of U.S.-Russian rivalry, and therefore decreases tensions in the region. U.S.-Russian relations in the region can be converted from a "win-lose" to a "win-win" situation for both states. For example, efforts can be made to encourage Russian corporate involvement in East-West pipeline projects, increasing the likelihood of these projects' realization and providing economic benefits to Russia. It should be made clear to Moscow that pipelines that avoid the Bosphorus, such as BTC, actually serve Russian interests; they avoid additional traffic in the straits and thus avert a potential challenge to the free passage regime in place, the preservation of which is viewed by Moscow as a vital national interest.
5. *Continue to invest diplomatic capital to solve the conflicts that afflict the Caspian region, especially the Nagorno-Karabagh conflict.* Secretary of State Powell should be applauded for the investment he has made in a peace settlement for Nagorno-Karabagh as one of the first major foreign policy initiatives of the new Administration. These efforts should continue and should be conducted in full cooperation with Russia, if possible. Great expectations were linked to the spring 2001 negotiations. *Failure to achieve an effective agreement soon could*

trigger renewed violence between Azerbaijan and Armenia, perhaps even war. The U.S. should continue and intensify its efforts to promote peace in the region and invest diplomatic efforts in this process. Successful negotiations will demand increased Western assistance and involvement in the implementation of the peace accord, including efforts (funding, coordination) for refugee resettlement and the construction of roads and other infrastructure. The U.S. and agencies like the World Bank should prepare for immediate action to consolidate the peace if an agreement is reached.

6. *Promote security arrangements in the Caspian region that Russia perceives as compatible with its interests, and thus has a stake in preserving rather than undermining.* Washington should strive to co-sponsor security arrangements and peace efforts in the region with Russia while developing structures that Moscow will perceive as at least minimally beneficial. Much of the instability that has plagued the region has resulted from the actions of rival powers: among them, the U.S., Russia, Iran and Turkey. In the early 1990s, Moscow's activities contributed to the escalation of many local disputes in the region to all-out wars.

   Overall, Russia is strategically inferior to the U.S., but in the Caspian region, *Moscow retains levers of influence that the U.S. cannot, or is not, willing to apply: i.e., Russian "relevant" versus American "relative" power.* Moreover, some actions are available in the region to Russia at much lower costs than they are to the U.S., such as the use of military troops. Actions resulting from U.S.-Russian rivalry can be very destabilizing to the region and, as a result, contrary to U.S. goals. Attempts by the U.S. to push Russia out of the region would be equally destabilizing.

7. *Fulfill U.S. commitments to the states of the region to help them preserve their independence, and simultaneously find ways to constructively deter Russia and Iran from undermining these states' interests.* The U.S. should prevent regional powers from taking advantage of the current crises and realignments in the region in order to impose their will on states of the Caspian region. In addition, the U.S. should oppose the use of Russian forces for any long-term peacekeeping missions in the Caucasus. *Overall, a permanent foreign peacekeeping contingent of any composition should be avoided in the Caucasus.*

   Changes in Iran or in some of its policies that may emerge in the coming weeks or months could allow a more cooperative relationship to develop between Tehran and Washington. In efforts to renew cooperation with Iran, Washington should be careful not to compromise the interests or independence of states like Azerbaijan and Uzbekistan—which have been very cooperative with Washington on its Iran policy. Specifically, Washington should not reshape its Caspian pipeline policy in order to court Tehran at the expense of the other Caspian states. As a result of U.S. encouragement, some Caspian states have stood up to Iran (e.g. barring Iran's participation in some energy projects, supporting ILSA, and foiling Iranian proliferation attempts), often at the expense of aggravating their relations with Tehran. These states received only minimal concrete rewards from the U.S. despite their pro-American orientation and support for Washington's policies in the area. The U.S. should continue to devote significant efforts to developing its cooperation with Azerbaijan and Uzbekistan and should assist these states in thwarting subversive efforts by Iran. Tehran may continue to attempt to destabilize Azerbaijan, even if there will be a significant change of regime in Iran. Tehran fears that the Republic of Azerbaijan could serve as a source of attraction for its own Azerbaijani minority. Thus, since the independence of the Republic of Azerbaijan, Iran has taken many steps to destabilize Azerbaijan, prevent the flow of Caspian energy resources that could bring prosperity to Azerbaijan, and has acted to keep Baku embroiled in conflict with Armenia. These policies are not connected to the nature of the regime in Tehran, and even if there will be a significant change in the regime, Iran will act to prevent Azerbaijan's development due to the internal ethnic consideration

8. *Caspian Sea demarcation should be viewed as a political issue and not a legal issue, which still demands resolution.* The contesting sides attempt to present demarcation of borders in the Caspian Sea as a strictly legal issue. However, the recurrent changes in their positions, especially those of Russia—up until the last year, and of Iran—reflect that the actors' legal stances are tactical, and that their overriding concerns regarding delineation are political and economic. When opportunities have arisen for their respective involvement in certain oil and gas exploitation projects, a change has generally emerged in Tehran's and Moscow's legal stances, in order to remove the obstacle that they themselves have created and allow the projects to be carried-out, and they have often been willing to forsake the common stand and abandon one another without support

on this issue. In the past year, Moscow has displayed its willingness to compromise on this issue and has removed obstacles to Caspian energy projects. These actions have created disagreements with Tehran, though they have not fundamentally affected Russian-Iranian relations, which remain strong. On July 23, 2001, Tehran militarily threatened a BP survey boat in the Caspian in an attempt to force its position on Caspian border demarcation. On a number of subsequent occasions, Iran violated Azerbaijani airspace as a further show of force. In response to the Iranian threat, Russia did not change its new flexible position on the Caspian borders, and this is commendable and promising, however Caspian demarcation continues to remain a subject of contention in the region, and may demand Washington's attention.

9. *Recognize the extensive Turkish domestic opposition to expanded traffic through the Bosphorus and design responsive policies that can reduce chances of accidents. Moreover, the Administration should identify the Bosphorus question as a potential future hot topic and work to prevent it from developing into a source of conflict between states in the region.* Currently, opposition is becoming more vociferous in Turkey that increased tanker flow in the Bosphorus will lead to accidents that could endanger large numbers of people in Istanbul and cause environmental disaster. The flow of high volumes of Caspian oil through the Turkish straits would lead to increased traffic and a corresponding increase in the chance of accidents. Turkey cannot legally regulate the flow of traffic in the straits or obstruct the "free passage regime" which was established by the 1936 Montreux Treaty. Arrangements should be determined which could prevent conflict over Bosphorus traffic.
10. *Alter the thrust of U.S. democratization programs in the region to emphasize the establishment of open society infrastructure (e.g. wide internet access, independent press and an independent and qualified judiciary), while recognizing that local leadership must guide these democratization efforts. Democratization is a long process. Elections and election monitoring should not be the focal point of the whole democratization policy nor should they be the only barometers of success.* Heavy emphasis on election monitoring has contributed to a public cynicism about elections. U.S. democratization efforts should instead be geared towards long-term goals. The U.S. must be perceived as a friend in the democratization process, and commend the positive steps in this regard whenever possible. The previous Administration often recognized progress by making more demands, creating confusion and animosity among the governments in the region. Moreover, foreign election monitoring created wide resentment in Central Asia and the Caucasus; alternative programs supporting the rule of law and infrastructure for information exchange would better promote democratization and produce less local resentment.
11. *Increase people-to-people exchange initiatives, professional development opportunities, and specialized training programs with each of the countries of the region.* National Security Advisor Condoleezza Rice explicitly made this excellent recommendation in her *Foreign Affairs* article of January 2000. The U.S. should create opportunities for Americans and the various peoples of the region to learn more about each other and each other's countries: Congress should increase opportunities for educational, cultural, business, and other types of partnerships and collaboration. Interactions among citizens and civil societies, combined with strong economic relations, are key pillars in good bilateral relationships. These pillars, or contact points, are critically important as fall-back relationships in times of misunderstandings when formal government to government contact and/or security relationships are strained.
12. *The U.S. should support and focus some of its resource allocation for the continued development of local and provincial zones of trade as well as the cross-border cooperation that is on the rise despite the many obstacles on the state-to-state level.* Examples of such trade and cooperation can be found between Armenia and Turkey, Azerbaijan and Armenia (taking place in Georgia), and Azerbaijan and the Azerbaijani-populated provinces in Iran. Establishing these trade and economic ties encourages peace, the flow of ideas, and general cooperation in the region. The U.S. should also promote investment to these regions, drawing on the success stories that already exist, while simultaneously pushing for more cooperation through technical assistance and conferences in the region on cross-border trade.

INSIGHTS INTO THE SEPTEMBER 11TH TERROR EVENTS AND REGIONAL IMPLICATIONS

After the catastrophic September 11th events, a plethora of articles and comments appeared in the U.S. press and abroad, posing the question as to why this tragic attack took place on the U.S. Many blamed the events on various policies of the U.S., such as its defense of Kuwait, support for Israel, and other policy stances. I condemn this practice of self-blame and contend that we do not have to accept violence as an appropriate means to call attention to stances in various political conflicts. Many peoples suffer tragedies and possess a self-view of having endured injustices, yet most do not use violence in order to call attention to their problems. The most manifest example comes from the Caucasus. *800,000 Azerbaijani refugees were created as a result of the Nagorno-Karabagh war. They lost their homes and their land, yet have not used violence to call attention to their plight.* The refugees and their leaders have not fostered hatred toward the U.S. or any foreign powers, *despite the fact that the U.S. has imposed sanctions* in this conflict on Azerbaijan—the side which has lost 20 percent of its territory, and a tenth of its population has became refugees. *We should not foster self-victimhood or condone violence by accepting the idea that terror is an understandable response in a political or territorial struggle. We should take example from the Azerbaijani refugees who have not used violence to call attention to their struggle. We should adopt a new model of conflict resolution—not just attention to those conflicts whose level of violence calls attention to them, but resolution efforts should be focused on those conflicts where the sides have abstained from the use of violence against civilian targets, and we should reward those refugees who have waited patiently and not glorified the use of terror.*

The current U.S.-led efforts to combat terror are creating a political earthquake in Central Asia and the Caspian region. Coalitions are shifting and new ones are being formed. In the effort to court new support, the U.S. should be careful not to forsake those states in the region that have over the past decade supported its anti-terrorism and non-proliferation efforts. States like Azerbaijan and Uzbekistan were extremely cooperative with Washington in the past decade on a variety of issues affecting U.S. security, long prior to the catastrophic events, and at times endured retribution from neighbors, such as Iran and groups in Afghanistan, due to their staunch pro-American policies. Uzbekistan's wide assistance to the U.S. in the current crises is crucial to making possible various policy and military options in the region, and Tashkent's clear-cut pro-U.S. stance was preceded by a decade of cooperative relations, often insufficiently pursued by Washington.

The U.S. should be careful that while its attention and policies are focused on the anti-terror efforts, various powers will not take advantage of the situation to destabilize regimes in the Caucasus and Central Asia. Concerns have been raised in the region that Moscow and Iran make take advantage of the focus of the U.S. on the war on terror to further pressure states in the Caspian region. Concerns are being voiced in the region that regional powers may use terrorist incidents and attribute them to other actors, such as "Islamic terror" in order to force its will on some of the states of the region. The U.S. should also take care that in its current actions in the region, it does not create havoc that will have long-term negative repercussions for the Caspian region. Some of the states that have offered the U.S. significant assistance in this current battle, such as Uzbekistan, will become targets of reprisals. The U.S. should take care to extend assistance to help counter these threats.

Mr. GILMAN. Our next witness is Dr. Zeyno Baran. Zeyno Baran is the Director of the Georgia Forum at the Center for Strategic and International Studies. She joined CSIS in 1996 to initially focus on Turkey. And since 1998, she has been working on the Caspian region. She specializes in the political and economic developments in that region, as well as the transportation of oil and gas for the ex-Soviet republics to world markets.

She also works with various U.S. and European institutions on combating corruption, promoting privatization and regional stability, defense and energy issues in Turkey and the Caucasus region. It is a full plate.

Ms. Baran frequently travels to the Caucasus and publishes both newspaper and scholarly articles. She regularly speaks at international conferences. And last year, she delivered the keynote speech at an international energy conference sponsored by The

Economist. She authored the Caucasus section of the CSIS terrorism task force report, which is scheduled to be published later on in October. She has an M.A. in international development economics, a B.A. in political science, both from Stanford. And she is fluent in Turkish and German.

Ms. Baran, you may put your full statement in the record and summarize and proceed in any manner you wish.

STATEMENT OF ZEYNO BARAN, DIRECTOR, GEORGIA FORUM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Ms. BARAN. Thank you, Mr. Chairman.

Surrounded by Turkey, Russia, Azerbaijan, Armenia and the Black Sea, Georgia is a key transit country from Central Asia and the Caucasus to Europe. Georgia's independence and stability therefore is essential to the East-West linkage.

Since the dissolution of the USSR, Georgia has relied heavily on the United States as a counterbalance against Russian aggression. Now there is a risk that due to the U.S.-Russian cooperation on the fight against terrorism, Georgia's interests may be superseded. But I think, given its location and unequivocal pro-U.S. Stand, Georgia will become even more relevant to the United States' national security interests.

I was asked to speak on four issues, and I will go in order. The first one is Georgia's role in the Caspian region.

Georgia's continued stability is extremely important to the United States' interests in the region, which have been repeatedly outlined as, "strengthening the independence and prosperity of the new Caspian states, bolstering regional cooperation, enhancing global energy security through the free flow of Caspian oil and gas to world markets, and increasing investment opportunities for companies from the U.S. and other countries." To further all those objectives, the Clinton Administration cooperated closely with Azerbaijan and Georgia and NATO ally Turkey on developing oil and gas pipelines along an east-west transportation corridor. The Bush Administration has unequivocally embraced this policy as well.

The Administration maintains that this policy is not anti-Russian but antimonopoly. Russia, however, wants to maintain its monopoly in this region and has been putting enormous political and economic pressure on Georgia. One thing is clear, if Georgia fails, then Russia will effectively reassert its influence over the whole corridor and the pipelines will no longer be non-Russian alternatives.

Chevron was one of the first U.S. oil companies to invest in the east-west corridor to transport its oil from Baku to Batumi in Georgia and then out to the Black Sea. And the reason was that they wanted to have an alternative to the Russian pipeline system for increased security.

A group of oil companies operating in Azerbaijan then sponsored the Baku-Supsa oil pipeline which became operational in 1999. And the proposed Baku-Tbilisi-Ceyhan oil pipeline and the Shah Deniz gas pipeline will solidify this east-west corridor and provide commercially attractive outlets for Azeri, and possibly Kazakh and Turkmen hydrocarbon resources as well.

There is already enormous progress with these two pipeline projects. All the necessary agreements have been reached after 2 years of negotiations with all three governments and companies. The basic engineering work was completed in May 2001 for the oil pipeline. Detailed engineering work started in June and construction is expected to commence summer of 2002 on both projects. There is also significant progress on finalizing the necessary agreements for the Shah Deniz project. And the reason I am mentioning these pipeline projects after we said that we spent a lot of time on the oil and gas pipeline projects is that actually they are a tool to further U.S. interests in this region. As I explained earlier, continued U.S. engagement is essential given that oil and gas pipelines are seen as U.S.-backed. Especially in light of recent terrorist attacks against the United States, greater security measures need to be taken to protect these critical infrastructure projects in Georgia and the rest of the Caucasus.

I would recommend that the United States Department of Defense should train its Georgian counterparts for quick reaction force against terrorist activities, both ground and air. Additional funding may be necessary for border assistance, as well as training and assistance on better communication and coordination among the various Georgian agencies, as well as Georgia, Azerbaijan and Turkey.

On the current political and political environment in Georgia, I would say that while it is doing better compared to Armenia and Azerbaijan, Georgia suffers from corruption, a weak economy and lack of institutionalization. At the same time, the reformist pro-Western groups in Georgia have started a real push for concrete changes and that gives great hope for Georgia's future. There is now a clear understanding that widespread corruption at all levels of the government has left Georgia vulnerable to internal and external pressures. Corruption has discouraged international investors and hindered successful implementation of economic reforms.

Georgia still has very low tax collection, which leaves its budget short of the necessary income. The shadow economy accounts for over 45 percent of its economy. This is not unique to Georgia, I am just focusing on Georgia for my part. More recently in Georgia, in part due to increased U.S. conditionality for assistance, reformist sections in the government have found the necessary courage to push for tangible changes.

The next presidential elections in Georgia are in 2005. There is now great opportunity for the United States to work with the reformist camp, as well as President Shevardnadze, to help Georgia take the tough steps that will allow it to become stable and prosperous. And I think the meetings that were held in Washington last week with President Shevardnadze and President Bush and other high level U.S. Administration officials actually are in the right direction.

Since independence, Georgia has suffered civil wars in Abkhazia and South Ossetia and neither has been resolved up to now. This is in part due to Russia's close relations with these two separatist regions. Last year, Russia imposed a visa regime on Georgia, but excluded Abkhazia and South Ossetia. In July, the Russia Duma passed legislation that allows regions to accede to the Russian fed-

eration. With such actions, I would think that Russia encourages the separatist regions in Georgia.

While South Ossetia has been relatively stable over the last few years, there is always risk of escalation. The solution of South Ossetia depends to a large degree on how the Abkhaz issue will be resolved.

I was in Abkhazia last April and was taken around the capital Sukhumi by the United Nations Observer Mission in Georgia, UNOMIG. They were quite concerned at the time that Georgians were not in control of the Kodori Valley in Abkhazia. And I would like to express my sadness for the death of the UNOMIG personnel and the crew that lost their lives in Monday's helicopter crash in Abkhazia.

Over the last few weeks, especially since September 11, tension in Abkhazia has risen with Russia and Georgia accusing each other of fomenting instability. If Abkhazia separatism gains further momentum, then other regions in Georgia might also challenge Georgian authority, and this would create huge instability in the region.

The continued presence of the Russian military in Gudauta is further increasing tension in Abkhazia. In November 1999, at the Organization for Security and Cooperation summit, Russia agreed to withdraw from this military base by July, 2001, but repeated meetings between the Russian deputy prime minister and the Georgian foreign minister and their teams have failed to produce any results.

It is widely believed that Russia trained and sent Chechens to fight against Georgians in Abkhazia during the civil war. One of the Chechen fighters was Bassaev who later became one of the leaders of Chechens fighting against Russians. In a twist of fate, Russia now accuses Georgia of allowing the smuggling of Chechens into the Kodori Valley to fight against the Abkhaz.

Talking a little about the Pankisi Gorge, which Dr. Fairbanks mentioned earlier, I would like to mention that Georgia took in thousands of Chechen refugees at the beginning of the second Russian-Chechen War and placed them at the border region, with is the Pankisi Gorge. There were already thousands of Kists already living there; they are Georgian citizens of Chechen origin. Consequently, when President Yeltsin asked Shevardnadze to use bases in Georgia to mount attacks against the Chechens, Shevardnadze did not agree for fear of being dragged into a war.

But since then, Russia has put enormous political and economic pressure on Georgia. Now that Moscow has decided to target the Chechens, Georgia is at the center of Moscow's antiterrorism efforts. Some among the Russian decision-makers may think that the United States is distracted by its own war against terrorism and therefore may not pay sufficient attention to developments in the Caucasus.

Moreover, they may think that cooperating with the United States against terrorism in Central Asia would win them some leeway in their efforts to reexert influence in the Caucasus. Even worse, individual military commanders at the Russian-Georgian border areas may take matters into their own hands with or without the permission from the central government in Moscow.

We need Russian's cooperation in the war against terrorism; and clearly there will be a price tag attached, but that cannot be a free hand in Georgia. Moreover, Georgia should not become an excuse for the failure of the Russian military actions in Chechnya.

There were extremely worrisome reports yesterday that helicopters that took off from Russia bombed Georgian territory in Abkhazia. It is unclear where they took off from.

The United States Administration needs to communicate firmly with Russia at the highest levels that antiterrorism cooperation in Central Asia and against the Taliban by no means translates into turning a blind eye to Russia's actions in Georgia.

We have heard from Administration officials on both sides about a clear red line to deter any destabilizing actions in the Caucasus. Now is the time to prove that even in extremely challenging times, the U.S. will remain committed to the stability of Georgia and, through Georgia, the whole Caucasus region.

Mr. GILMAN. Thank you, Ms. Baran.

[The prepared statement of Ms. Baran follows:]

PREPARED STATEMENT OF ZEYNO BARAN, DIRECTOR, GEORGIA FORUM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

UPDATE ON GEORGIAN POLITICAL AND ECONOMIC SITUATION

Surrounded by Turkey, Russia, Azerbaijan, Armenia and the Black Sea, Georgia is a key transit country from Central Asia and Caucasus to Europe. Georgia's independence and stability is essential for the east-west linkage. Since the dissolution of USSR, Georgia has relied heavily on the United States as a counter-balance against Russian aggression. Now there is a risk that due to the U.S.-Russian cooperation on the fight against terrorism, Georgia's interests may be superseded. But I think, given its location and unequivocal pro-U.S. stand, Georgia will become even more relevant to United States national security interests.

I am very thankful to be invited to today's hearing and given an opportunity to talk about some recent developments in Georgia, as well as to point out opportunities for enhancing United States interests in Georgia and through Georgia in the Caucasus and Caspian region.

Georgia's Role in the Caspian Region

Georgia's continued stability is extremely important to the United States interests in the region, which have been repeatedly outlined as "strengthening the independence and prosperity of the new Caspian states, bolstering regional cooperation, enhancing global energy security through the free-flow of Caspian oil and gas to world markets, and increasing investment opportunities for companies from the U.S. and other countries."

To further all these objectives, the Clinton administration cooperated closely with Azerbaijan and Georgia, and NATO ally Turkey, on developing oil and gas pipelines along an east-west transportation corridor. The Bush administration has unequivocally embraced this policy as well. The administration maintains that this policy is not anti-Russia, but anti-monopoly. Russia, however, wants to maintain its monopoly in this region, and has been putting enormous political and economic pressure on Georgia. One thing is clear: if Georgia "fails," then Russia will effectively reassert its influence over the whole corridor, and the pipelines would no longer be "non-Russian alternatives."

Chevron was the first U.S. oil company to invest in the east-west corridor to transport its oil from Baku to Batumi in Georgia, and then out to the Black Sea. A group of oil companies operating in Azerbaijan then sponsored the Baku-Supsa oil pipeline, which became operational in 1999. The proposed Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Shah Deniz gas pipeline will solidify this east-west corridor and provide commercially attractive outlets for Azeri, and possibly Kazakh and Turkmen hydrocarbon resources as well.

There is already enormous progress with these two pipeline projects. All the necessary agreements have been reached on BTC after two years of negotiations with all three governments and the companies. The basic engineering work was completed in May 2001, detailed engineering work started in June and construction is

expected to commence summer of 2002. There is also significant progress on finalizing the necessary governmental and commercial agreements for the Shah Deniz project. Both projects gained further momentum when the chairman of BP, the consortium operator of both projects, announced last summer the company's full commitment to the success of these projects.

Nonetheless, continued U.S. engagement is essential. Moreover, given that the oil and gas pipelines are U.S.-backed, especially in light of the recent terrorist attacks against the United States, greater security measures need to be taken to protect these critical infrastructure projects in Georgia, and the rest of the Caucasus. The U.S. Department of Defense should train its Georgian counterparts for quick reaction force against terrorist activities—both ground and air. Additional funding may be necessary for border security assistance, as well as training and assistance on better communication and coordination among the various Georgian agencies, as well as Azerbaijan and Turkey.

Current Political And Economic Environment In Georgia

While overall it is doing better compared to Armenia and Azerbaijan, Georgia suffers from rampant corruption, a weak economy and lack of institutionalization. At the same time, the reformist, pro-Western groups in Georgia have started a real push for concrete changes, and that gives great hope for Georgia's future.

There is now a clear understanding that widespread corruption at all levels of the government has left Georgia vulnerable to internal and external pressures. Corruption has discouraged international investors and hindered successful implementation of economic reforms. Georgia still has very low tax collection, which leaves its budget short of the necessary income. The shadow economy accounts for over 45% of Georgia's economy. With almost half of the economy not contributing to the country's budget, the Georgian economy has not been doing well.

More recently, however, in part due to increased U.S. conditionality for assistance, reformist sections in the government have found the necessary courage to push for tangible changes. Some ministers even resigned, stating that they no longer want to be part of a corrupt government. It is an open secret in Tbilisi that some of the most corrupt people in Georgia are associated with the Ministry of Interior Affairs, Tax Ministry and the Police. But these same corrupt power ministries are those that are responsible for presidential security and internal stability, and taking hasty actions against them poses serious risks.

The next Presidential elections in Georgia are in 2005. There is a now a great opportunity for the United States to work with the reformist camp, as well as President Shevardnadze, to help Georgia take the tough steps that will allow it to become stable and prosperous. The outcome of such a policy would be guaranteeing an internally strong, reliable ally in the Caucasus region.

Abkhazia and South Ossetia in Georgian Stability

Since independence Georgia has suffered civil wars in Abkhazia and South Ossetia, and neither has been resolved up to now. This is in part due to Russia's close relations with these two separatist regions. Last year Russia imposed a visa regime on Georgia, but excluded Abkhazia and South Ossetia. In July, the Russian Duma passed legislation that allows regions to accede to the Russian federation. With such actions, Russia encourages the separatist regions in Georgia.

While South Ossetia has been relatively stable over the last few years, there is always risk of escalation. The solution of South Ossetia depends to a large degree on how the Abkhaz issue will develop.

Abkhazia is a complicated and active conflict area. I was in Abkhazia last April, and was taken around the capital Sukhumi by the United Nations Observer Mission in Georgia (UNOMIG). UNOMIG was quite concerned at the time that Georgians were not in control of the Kodori valley in Abkhazia. I want to express my sadness for the death of the UNOMIG personnel and the crew that lost their lives in Monday's helicopter crash in Abkhazia.

Over the last few weeks, especially since September 11, tension in Abkhazia has risen, with Russia and Georgia accusing each other of fomenting instability. If Abkhazian separatism gains further momentum, then other regions in Georgia might also challenge Georgian authority, and all this would create huge instability in the region.

The continued presence of the Russian military base in Gudauta is further increasing tension in Abkhazia. In November 1999 at the Organization for Security and Cooperation in Europe (OSCE) summit Russia agreed to withdraw from this military base by July 2001, but repeated meetings between Russian deputy prime minister and Georgian foreign minister have failed to produce any results.

It is widely believed that Russia trained and sent Chechens to fight against Georgians in Abkhazia during the civil war. One of the Chechen fighters was Bassaev, who later became one of the leaders of Chechen rebels fighting against Russians. In a twist of fate, Russia now accuses Georgia for allowing the smuggling of Chechens into the Kodori valley to fight against the Abkhaz.

Terrorism, Russia And Chechens

At the beginning of the second Russian-Chechen war, Georgia took in thousands of Chechen refugees and placed them at the border region in the Pankisi gorge, where thousands of Kists already lived. Kists are Georgian citizens of Chechen origin. Consequently, when Yeltsin asked Shevardnadze to use bases in Georgia to mount attacks against the Chechens, Shevardnadze did not agree for fear of being dragged into a war. Since then, Russia has put enormous political and economic pressure on Georgia. Now that Moscow has decided to target the Chechens, Georgia is at the center of Moscow's anti-terrorism efforts.

Some among the Russian decision-makers may think that the United States is distracted by its own war against terrorism, and therefore not pay sufficient attention to developments in the Caucasus. Moreover, they may think that cooperating with the United States against terrorism in Central Asia would win them some leeway in their efforts to re-exert influence in the Caucasus. Even worse, individual military commanders at the Russian-Georgian border areas may take matters into their own hands—with or without the permission from Moscow.

The hardliners still have not forgotten and forgiven President Eduard Shevardnadze, who was a key player in both the demise of the Soviet Union and the reunification of Germany. These men have mounted several assassination attempts, and are continuously looking for opportunities to destabilize Georgia. The growing concern is, no matter what the Georgians do now, such groups in Russia may use going after terrorists as a pretext to exert more military and political pressure on Georgia and later on the entire Caucasus.

We need Russia's cooperation in the war against terrorism, and clearly there will be a price tag attached. But that cannot be a free hand in Georgia. Moreover, Georgia should not become an excuse for the failure of the Russian military actions in Chechnya. There were extremely worrisome reports yesterday that helicopters that took off from Russia bombed Georgian territory in Abkhazia. The U.S. administration needs to communicate firmly with Russia at the highest levels that anti-terrorism cooperation in Central Asia and against the Taliban by no means translates into turning a blind eye to Russia's actions in Georgia.

The United States administration officials for years have talked about a "clear red line" to deter any destabilizing actions in the Caucasus. Now is the time to prove that even in extremely challenging times, the United States will remain committed to the stability of Georgia, and through Georgia, the whole Caucasus region.

Mr. GILMAN. And I would like to thank our panelists for their excellent testimony today. And I will address this to the entire panel.

In a recent study by Freedom House, Georgia was credited with making significant progress in democratization. However, Armenia and Azerbaijan were rated lowest of the 12 non-Baltic former Soviet republics, showing little or no real democratization.

Do you agree with this assessment? What implications does this have for U.S. policy? Does any panelist wish to respond?

Dr. Fairbanks.

Mr. FAIRBANKS. It is true, I think that Georgia is the most democratic in spirit of the Central Asian or Caucasian states. I would say, however, that I think Azerbaijan and Armenia are too low in that list to consider Azerbaijan, for example, less democratic than Kazakhstan or Uzbekistan would be very strange.

Ms. SHAFFER. I would like to relate to the situation of the Republic of Azerbaijan. I have been visiting Azerbaijan frequently throughout the 1990s.

First thing, on a daily basis, there are five serious newspapers that are published daily in Baku. Baku has 2 million citizens, about the size of San Francisco. I think—San Francisco has, I think, one daily newspaper. I won't comment about it, but certainly

nothing to the level of the feisty Azerbaijani press. Half of the time, the human rights violations or any problems of democratization that we in the West know about, we know about it from the Azerbaijani press. I myself have frequently been a target of the Azerbaijani press, so I know it can be quite feisty.

Universities in Azerbaijan, either state or private universities, have become venues of fierce debate. Government policymakers often come to conferences. I have participated with the foreign minister of Azerbaijan in a conference at a private university where citizens can come, attack policies, discuss policies with the officials of the state.

I think we have to look at U.S. democratization policy abroad in general. Where are we? In the Republic of Azerbaijan, there is a lot of room for improvement in terms of democratization. However, every 6 months, every year things are getting better and better.

And for some reason, the U.S. doesn't attack countries that don't democratize at all. I wonder if in a Committee meeting on the Middle East, you talk about democratization in Saudi Arabia, Kuwait, Qatar, some of these American allies in the Middle East; yet when a country like the Republics of Azerbaijan, Armenia and Georgia take steps toward democratization, it is like every step of the way you say, we will escalate the demands. We are constant critics, and instead of saying, yes, we are a friend to this process and nurturing this process as friends and family members, in a sense, we are harsher with democratizing countries than countries that don't democratize at all.

What is the message we are giving?

Mr. GILMAN. Not a good one apparently.

Ms. Baran.

Ms. BARAN. Well, in Georgia, I agree that Georgia has done a lot to democratize and, in fact, it is a common joke that it may be a little too democratized. The press is sometimes a little too free, but they have been making good progress.

Mr. GILMAN. Dr. Shaffer has pointed out that Armenia and Azerbaijan are actually conducting trade and commerce through Georgia. Others believe that Azerbaijan should consider offering Armenia a direct commercial relationship featuring the sale of energy to Armenia as a way to help reduce tensions in their relationship to try to promote peace. Since section 907 is based on the Azerbaijani trade and commercial blockade of Armenia, why wouldn't Azerbaijan simply declare the blockade over and bring the activities taking place in Georgia directly to the Armenia-Azerbaijan border?

Could the Azerbaijan Government take this approach without negative domestic implications?

I would welcome the entire panel to consider that. Who would like to volunteer first?

Dr. Shaffer.

Ms. SHAFFER. Clearly, gas supplies in the Republic of Azerbaijan, if used with existing and new pipelines to Armenia and Georgia, in the long run will be important for the stability and progress of all of the south Caucasus. And these countries have so many problems. Especially living in the neighborhood of strong states like Iran, Turkey and Russia, it is clear that the three states have to

be somewhat of a united market, open borders, sharing of energy infrastructure.

But at this stage, when 20 percent of Azerbaijan is under Armenian occupation, it is difficult for me to conceive that Azerbaijan would be transporting or supplying gas to a neighbor that is actually occupying its territory. And the only lever really that Azerbaijan has over Armenia, to make it have some progress in the peace process, is this trade and these gas supplies.

I don't understand what the word "blockade" means. Armenia has open borders with Iran. I visited in Nagorno-Karabakh in January. I saw more Iranian cars there than Armenian cars. A lot of trade is going on—quite open border with Iran; trade with Georgia, which I have also seen on the border between Georgia and Armenia; trade with Russia.

I flew from Armenia over Turkish air space in an Armenian Airlines plane. I don't understand what kind of blockade is on Armenia if the Turkish air space is open. I know of few warring countries, like Armenia and Azerbaijan, that actually have open trade. I don't know if the U.S. would have open trade with a country that it is at war with. I can't think of an example of two countries that are at war that only formally have a cease-fire that one country occupies 20 percent of its territory, but yet they have supermarkets on the border.

Mr. GILMAN. Dr. Fairbanks, do you have some comments?

Mr. FAIRBANKS. Well, I think it is true that—I think it is true that closed borders over the long run do not facilitate the peace process, but it is really utterly unrealistic to expect Azerbaijan to do trade or other confidence-building measures with Armenia prior to any substantial Armenian concession. It would be too great a sacrifice of pride, too obvious and ignoring of the lost territory and the refugees for that to take place.

Mr. GILMAN. Mrs. Baran.

Ms. BARAN. I agree, in the long term, it would be much better to have all three or four Caucasus countries to cooperate closely. But given the current situation on the ground, it is unrealistic.

Mr. GILMAN. I thank our panelists for their observations.

Observers of the region have made a case for the strategic importance of Azerbaijan for its energy resources and Georgia for its importance in the transport of those resources.

Can you outline exactly what the strategic importance of Armenia is to our own national interest? Who would like to volunteer to give me their opinion?

Dr. Fairbanks.

Mr. FAIRBANKS. I think in American Caspian policy that there has been a tendency to ignore Armenia. And while the reasons for that are understandable, I think a policy of opening the Caucasus to American influence cannot succeed without a more energetic American policy toward Armenia.

Armenia does have strategic importance because, together with successionist Nagorno-Karabakh, Armenia has by far the strongest military forces in the Caucasus and, except perhaps for Uzbekistan, the most competent army in the newly independent states.

Mr. GILMAN. Dr. Shaffer.

Ms. SHAFFER. Part of something that is wonderful about the Caucasus in the Caspian region is that relations don't have to be zero sum. The U.S. can have excellent relations with Republic of Armenia, excellent relations with the Republic of Azerbaijan and with the Republic of Georgia, it can support all three countries. We shouldn't have to see it in a sense of one country is more important or which interests are more important. It is important that we strengthen democratization and friendly relations with all three states in the south Caucasus, and, actually, peace in the region, resolution of the Nagorno-Karabakh conflict is good for all three states, good for U.S. interests.

So we really do not have to see this as, in a sense, zero sum, one country—view us as having to have excellent relations with one or the other country.

Mr. GILMAN. Do you consider our relations with all three countries to be favorable at the present time?

Ms. SHAFFER. Favorable? One of those countries you have sanctions on that prevent any direct government-to-government assistance between the U.S. and that country. I mean, there are other countries like that. We have limited sanctions on Iran and sanctions on Pakistan because they tested nuclear weapons. We have sanctions on India. I know of few countries that we have comprehensive U.S. sanctions on. One of them is the Republic of Azerbaijan. So it is difficult to say——

The people of Azerbaijan are interested in a very friendly relationship, and the government, with the United States. The United States Congress has imposed sanctions on that country. So, no, I don't think we have an appropriate policy toward all three states.

Mr. GILMAN. Ms. Baran.

Ms. BARAN. I think Armenia is as important as the other two Caucasus countries because I don't think you can really isolate any of the countries. It is the Caucasus as a whole, and the only way we will have stability in the Caucasus is for the U.S. to be close to all three. I think especially in the world after September 11 it is going to be more and more important to have open transportation corridors, communication corridors, and cooperation with U.S. Cooperation that the U.S. will have with all three is going to be important for U.S. interests.

Mr. GILMAN. Some observers say that the political leadership in Nagorno-Karabakh feels that a deal will be struck which they cannot support because it will not give them independence or association with Armenia. Can a peace agreement be constructed which would be accepted by all three parties in the conflict? And what happens if Nagorno-Karabakh refuses to accept any such arrangement?

Who would like to start off their comments? Dr. Fairbanks.

Mr. FAIRBANKS. Sure. Clearly, it is necessary to think about the particular point of view of Nagorno-Karabakh in crafting a peace settlement. I think, however, that it is possible but difficult to arrive at a peace settlement that satisfies the minimal demands of all the parties. Nagorno-Karabakh is not totally independent from the Armenian Republic but neither is it totally dependent on Armenia. It is a complicated situation where it plays a partly independent role in negotiations, not a totally independent one.

Mr. GILMAN. Thank you.

Dr. Shaffer, please.

Ms. SHAFFER. I think it would be constructive to the peace process that Nagorno-Karabakh will eventually participate in negotiations over the status, but I think—we don't have three parties to the peace process. It is not just Armenia, Azerbaijan, and Armenian Nagorno-Karabakh but also the Azerbaijanis of Nagorno-Karabakh, 35,000 that were evicted from their homes during the war. Just because they lost the battle doesn't mean they shouldn't be a part of the peace process. But I do think that all four parties should be a part of the peace process, both Nagorno-Karabakh Armenians and the Azerbaijanis.

I am actually quite optimistic about the eventual resolution of the Nagorno-Karabakh conflict. One, because in the past year Russia and the U.S. have been quite cooperative over this conflict; and in recent months it hasn't been sort of a pawn in Russian-U.S. competition but rather they have tried to work together to solve this conflict; and that is constructive.

Also, something very encouraging in the region, that as much as the political correlations are often very difficult, on the personal or interpersonal level you rarely see signs of antagonism between Azerbaijanis and Armenians when they meet in third places, for instance, in Georgia or Russia or other places, and I think the—still, the personal level, the human level relations can be quite positive; and we have not seen the level of violence against civilian targets like the Middle East. It has basically been a war against the armies, and I think in the long run this can be solved.

Mr. GILMAN. Thank you.

Ms. Baran.

Ms. BARAN. Maybe I should start going first—after Dr. Fairbanks and Dr. Shaffer—I tend to agree with a lot of things they say.

I would like to add it is important that all three parties' voices are heard as well as the continued good relations between Russia and the U.S. is going to make it more possible that we will see a solution sometime soon.

Mr. GILMAN. Thank you.

Some have speculated that Islamic terrorists forced from Afghanistan could try to make their way to the Caucasus region for refuge. How do you feel about that? Is that likely? Can Azerbaijan resist that kind of scenario and what implications could that have on the safety of the oil and gas supply in the region?

Ms. Baran, you can start.

Ms. BARAN. I think there is a risk that people being bombed out of Afghanistan might try to find some refuge in the Caucasus. It is a very mountainous area. The borders are difficult to control. Border control is in fact one of the areas that the U.S. has been giving a lot of assistance to the Caucasus, especially in Georgia the border security program has been extremely useful.

But I think more needs to be done and, as I said in my statement, increased communications and increased training is important and will require increased funding. Some of the funding would have to come possibly from Department of Defense.

There is a risk that uncontrolled areas, especially in the country that I cover closely, in Georgia, could become more destabilized. I

am happy to see that this Administration, despite being very actively involved in the war in Central Asia, is actually doing that.

Mr. GILMAN. Thank you very much, Ms. Baran.

Dr. Shaffer, what are your thoughts?

Ms. SHAFFER. I think it is really important when we look at coalitions and alliances in the Caucasus region and also in the Middle East and we separate between the flag that someone's waving, the idealogy that they are trying to project and their actual motivation, and really the coalitions in this region are not based in religion. For instance, in a conflict between Christian Armenia and Shi'ite Muslim Azerbaijan, you have Iran supporting Armenia. Religion is not the basis of cooperation in this region.

Also, in the Middle East, Osama bin Laden and the groups that he cooperates with for years have targeted Saudi Arabia and Egypt, Muslim regimes in their activities; and we shouldn't—we have to separate between the flag they wave and they say, yes, we are acting in the name of Islam and Islam solidarity, and what are their goals, and their goals are often quite different.

The terrorists that did these evil acts on September 11, most of them were living in the United States. The place that people reside isn't necessarily—the majority of the population is Muslim. So to assume that the Republic of Azerbaijan, who is actually a victim or a potential victim and struggling against fundamentalist elements, would be a refuge or a haven I think is incorrect.

As Ms. Baran correctly pointed out, the control mechanisms of these three countries and that their territory could be used against their will for means of transport and for refuge is quite possible.

Mr. GILMAN. Dr. Fairbanks.

Mr. FAIRBANKS. I think it is simply unwise to leave areas of the globe that are not subject to recognized governments without a minimum level of economic development and so forth. I think we made that mistake in Afghanistan after 1990. We assumed that it was such a remote and distant country and so messed up that it didn't concern us what happened there. I think we have seen that areas which are—where states are so weak like Afghanistan inevitably attract all kinds of terrorists adventurers, criminals, and we need to be much more vigilant about that.

Mr. GILMAN. Thank you very much.

It seems that Georgia's numerous internal weaknesses have prevented it from moving forward both politically and economically. That made Georgia susceptible to Russia and pressure. What economic challenges does Georgia face which could be addressed in the short term to help Georgia? Ms. Baran.

Ms. BARAN. One of the areas that Georgia is vulnerable is in its energy dependance. Almost all of its energy comes from Russia, and we have seen last year at times of political difficulty, Russia has actually cut off the gas supplies. It is very important to help Georgia to have an emergency supply or encourage cooperation with other countries to assist Georgia with its energy so that it is not left vulnerable for any kind of pressures.

As for other assistance, it is very difficult to improve the economic conditions or have any significant trade going on in some areas because the road conditions and basic infrastructure are very bad, and the U.S. could actually help alot by becoming a leader and

working with the World Bank and other international financial institutes to guide them in more investment into basic, critical infrastructure projects.

Mr. GILMAN. Thank you, Ms. Baran.

Dr. Shaffer.

Ms. SHAFFER. Pass.

Mr. GILMAN. Dr. Fairbanks.

Mr. FAIRBANKS. I suggested in my prepared statement that a very important thing for Georgia's economic development is to strengthen Georgian statehood and to try to discourage the futile character by which public officials really support themselves by some other occupation and not from the government budget. It seems to me that that is a thing that Congress could well specify in legislation.

In the past in Georgia, groups as prestigious as the presidential guard have paid their salaries by protecting private shipments. That is a small thing but a key to Georgia's economic development and westernization, I think.

Mr. GILMAN. Thank you very much.

I want to thank our three panelists for your very astute observations. We are joined by Mr. Hilliard and Mr. Crowley. Mr. Crowley.

Mr. CROWLEY. Thank you, Mr. Chairman. Thank you.

I am sorry I was not here for your statements. I will take them back with me and read them through. I know there was some discussion of a myriad of issues.

I want to talk briefly about how the world has changed just incredibly since September 11. Things that seemed more simple, I guess you can say, have become much more complicated and our relationships have become more complicated as well. And it is not just here in the United States that the world has changed and our perception. I think it has just changed everywhere.

I know that that there had been some discussion before about the pipeline proposal and promoting the pipeline. I understand, for political reasons, it doesn't include one key regional partner, and that being Armenia; and I think it is somewhat wrong-headed and destructive, that policy. The planned Baku-Ceyhan pipeline, which does not include Armenia, would cost nearly $2.7 billion. However, the pipeline from Baku to Ceyhan that transverses Armenia in a far more direct route would save approximately 4 to $7 million.

I am a co-sponsor of House Resolution 162 with Congressman Joe Knollenberg; and among other things this resolution states to Congress that any pipeline which is not commercially viable, which hinders the U.S. policy goal of integrating Armenia to a secure regional economic framework should not be subsidized by the U.S.

This resolution also urges the Trade Development Agency to fund and support an oil/gas pipeline visibility study to determine the cost savings of a transArmenia Baku-Ceyhan pipeline.

Dr. Shaffer, you apparently have pointed out that Armenia and Azerbaijan are actually conducting trade and commerce through Georgia. Others believe that Azerbaijan should consider offering Armenia a direct commercial relationship featuring the sale of energy to Armenia as a way to help reduce tensions. Do you think that by extending that to including the pipeline through Armenia that would be a good gesture and one that would be received posi-

tively by Armenia and wouldn't that go a long way toward reducing the tension in that region?

Ms. SHAFFER. Thank you for your question.

In terms of—first, let us start—in terms of gas supplies, I think this would be an important component of an eventual Nagorno-Karabakh settlement, that both Armenia and Georgia would use some existing pipelines infrastructure and some new ones that will be built probably as part of the Shah Deniz project and will have regional use or supply of Azerbaijan gas to Georgia and to Armenia. I think for the long-run viability of the region this is quite important and this would lessen Armenia and Georgia's dependance on both Russia and Iran for their energy supplies.

Baku-Tbilisi-Ceyhan is a commercial venture. As far as I know, the U.S. Government has not appropriated any funds for this. This is private companies. So to talk about U.S. subsidies, you know, and which way it should go, this is for—different companies are building these pipelines. I don't think it is realistic to expect that Azerbaijan would build its primary strategic element and the primary source of its future economic growth through a country that occupies 20 percent of its territory.

Will this go through Agdam, which is an Azerbaijan city under Armenian occupation? Would the Armenian troops still be there? Would the Azerbaijani troops protect the pipeline? What are the pipeline venues? Where do the Armenian forces stand near these pipelines?

I think the trade between the three countries is an important element but, as part of a peace process, as the end of a peace process, it is very difficult to think of a situation where Azerbaijan opens up to complete trade and sharing of energy supplies with Armenia prior to a peace contract, which would demand levers that would have to help get Armenia out of its territories.

Mr. CROWLEY. I guess the point is that the pipeline doesn't exist at this point in time. Wouldn't that be in both their national interest, to secure that pipeline to make sure it is free-flowing, conceivably?

Ms. SHAFFER. That is why peace is very important. Peace between Armenia and Azerbaijan is very important for energy security——

Mr. CROWLEY. That is why we believe in taking those courageous steps for peace. This could be one of them.

Ms. SHAFFER. I think that has to be at the end of—I can think of no precedent of the countries that are at war, where one country is occupying part of its territory and it says, please let me build for your territory a strategic pipeline. Maybe you can give me an example of another country that builds its pipelines or waterlines for countries it is at war with. I don't think it is a realistic option.

Ms. BARAN. I think it is a moot point, because it is not really up to the U.S. to decide what is going to happen with these pipelines. It is Azerbaijan's oil and Azerbaijan has decided, together with Georgia and Turkey, that is how it is going to be transporting its oil.

Most importantly, I am surprised that you said these pipelines are not commercial, because we have very serious international oil companies representing a number of countries——

Mr. CROWLEY. I didn't say they weren't commercial.

Ms. BARAN. You said, about the commercial viability of these projects.

But let me make the point. These companies are going to be putting money down and have actually put money down, there is detailed engineering going on. There is an expectation that construction is going to start next year, and after 2 years of intense negotiations they have made a lot of progress. I think, in the future, I hope, once the situation gets better between Azerbaijan and Armenia, there is a possibility to get a spur of a gas line or other possibilities.

But I think to try to somehow redirect the pipeline, it is just going to be a waste of time. Because the commercial realities are driving the project.

Mr. CROWLEY. I guess we will respectfully disagree.

Mr. GILMAN. Thank you, Mr. Crowley.

Mr. Hilliard.

Mr. HILLIARD. Thank you very much.

First of all, let me express my apology for not being able to be here for your presentation, but I thank you for coming, and I thank you for your answers to those questions.

That is all, Mr. Chairman. Thank you very much.

Mr. GILMAN. Thank you, Mr. Hilliard.

Let me pose one more question. We were looking at the map again. Was there any hope of working out—getting the Nagorno-Karabakh Armenians moved over to Armenia and getting—I hope I am pronouncing it right—the Nakhchivan Azerbaijanis into Azerbaijan? Is there any way of working out those problems? They are both cut off from each other's homeland. Ms. Baran.

Ms. BARAN. I will yield to——

Mr. GILMAN. Dr. Shaffer.

Ms. SHAFFER. I think one of the many great aspects of the U.S. is that people of different ethnic groups, from different regions, speaking different native languages live together often in the same cities, the same neighborhoods. I don't buy the theory that the Caucasus has ancient hatreds. I don't believe there is ancient hatred everywhere. When it is in our interest to conjure up history in different events, we use it.

For instance, we could write a political book on U.S.-Mexican relations. We never talk about the history of wars between these two countries, the borders that shifted, the populations that shifted. But if there became a political interest to one of the sides, they certainly could tell a whole history of ancient hatreds and ancient wars that took place between Mexico and the U.S.

The same thing is in the Caucasus. These wars are actually—if we were actually to write a history assignment—sorry, I work in a university—and talk about the history of the Caucasus up into the 20th century, we could talk about intermixing of populations, intertrade of these populations, even intermarriage. If we look at the 20th century, yes, massacres, genocides, awful things have taken place in the 20th century between these peoples, but when we are seen at the beginning of the 21st century, political movements pick and choose.

I don't think we have to bring to separation the people in the Caucasus. I think, just like anywhere else, these people can have political interests that will lead them to stability and peace, and I hope the U.S. will be a fair broker in that peace process.

Mr. GILMAN. Thank you.

Dr. Fairbanks, do you want to comment?

Mr. FAIRBANKS. Yes. I think because Americans move around so much—personally, I was born down in Georgia, and it is a different world.

Mr. GILMAN. Not the Caucasus.

Mr. FAIRBANKS. We sometimes forget how much people can care about land which they feel is theirs. In ethnic conflicts you hear all the time, but it is our land; and it is an unfortunate coincidence that Karabakh or Artsakh, as Armenians call it, has a particular status in the histories of both peoples. Armenians consider it was the last area where independent Armenian princes governed Armenian populations. Azerbaijanis are aware of the extremely important place in Azerbaijan art and literature that the City of Shusha particularly had. So it is a real, real difficulty.

Mr. GILMAN. I want to thank our panelists once again for their very eloquent remarks and very astute remarks.

Before we conclude, I want to ask unanimous consent to insert in the record a statement by Congressman Cantor of Virginia.

[The prepared statement of Mr. Cantor follows:]

PREPARED STATEMENT OF THE HONORABLE ERIC CANTOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Thank you Mr. Chairman for holding this important hearing to assess the current political and economic environment in the Caucasus and the Caspian Region. The United States and Armenia share a strong bond of friendship and a strong commitment to the ideals of freedom, liberty and democracy.

For the past nine years, Section 907 of the Freedom Support Act has stood as a statement of U.S. policy in the region to enforce the U.S. position that Azerbaijan should cease its blockade and offensive use of force against its neighbors, Armenia and Nagorno Karabagh. In the wake of the terrorist attacks against the U.S. on September 11, repealing Section 907 would absolve that government of any duty to cease its aggressive action against its neighbors. The U.S. should instead continue to send the message that Azerbaijan must cease its offensive before it would consider lifting any of the U.S. restrictions.

I was proud to recently join 33 of my colleagues in co-signing a letter to Secretary of State Colin Powell urging him to maintain Section 907. Azerbaijan has failed to live up to the conditions leading to a repeal of Section 907. In fact, recent reports indicate that the Azerbaijani government invited Osama Bin Laden and his network into its country.

Another important issue affecting the nations of this region is the proposed Baku-Ceyhan pipeline. Currently this pipeline, which originates in the Azerbaijani capital of Baku and ends at the Turkish port of Ceyhan, specifically bypasses Armenia. This exclusion of a single country from a regional project serves only to foster instability. The United States needs to stand firm that Armenia must be included in regional and trans-regional economic plans and projects.

Due to its many years under a Soviet planned economy, Armenia has had a difficult transition to a market economy, despite government efforts to privatize industry. Congress has recognized Armenia's commitment to democracy through the delivery of a generous economic aid program, but a majority of the country's population remains poor. Armenia is one of the largest per capita recipients of U.S. aid, receiving a total of approximately $1.2 billion in aid since 1992. The United States must continue to provide a level playing field to this country which upholds our democratic ideals. Armenia deserves our support.

Thank you again, Mr. Chairman, for holding this hearing and I look forward to working to bring stability to this region and strengthening the bonds between the U.S. and Armenia.

Mr. GILMAN. I want again to thank our witnesses for appearing today. I know that Chairman Gallegly had an unexpected meeting called just before the hearing which is why he had to leave, and we had hoped he would be back before we concluded. Please don't take his absence as an indication of his disinterest.

We have your statements, and I know they will be very helpful to our entire Subcommittee and to our entire Committee, and we thank our experts for being here.

I now conclude our hearing.

[Whereupon, at 3:25 p.m., the Subcommittee was adjourned.]

○

TN-630-363

ISBN 0-7567-2916-5

9 780756 729165